

The Pragma Corporation
Access to Credit Initiative
Second Quarterly Report
For the Period
January 1, 2005 – March 31, 2005

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

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KYIV, UKRAINE

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A. PROJECT OVERVIEW

I. PROJECT DESCRIPTION

ATCI is tasked with developing the primary and secondary mortgage market with its associated infrastructure; increased capacity for the leasing industry including the development of certified leasing professionals; the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and a credit bureau to facilitate the growth of credit for mortgages- and other retail lending. While the credit bureau component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. In response to changing requirements for technical assistance, and a changing political landscape, the work plan will be reviewed quarterly for necessary adjustments. The CTO and COP are working closely to coordinate all technical assistance including defining expected outcomes for each planned activity and the results thereof. Although this is an LOE - based contract, performance based monitoring is an essential element for measuring progress in achieving project objectives and is expected to be implemented by the end of the second quarter.

ATCI is cooperating with numerous counterparts and expects to sign a series of formal protocols in addition to those already signed. These Protocols are expected to govern mutual activity as well as manage expectations during the course of the project.

The priorities of the Project for this period are noted by component in the boxes below.

The project update for this quarterly report will correspond to the activities set forth in the action plan described below and reported by component.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- ATCI OFFICIALLY INAGURATES PROJECT
- GRIGORI MARCHENKO, FORMER GOVERNOR AND FIRST DEPUTY PRIME MINISTER OF KAZAKHSTAN VISITS UKRAINE AS ATCI ADVISOR.
- ACTI SIGNS PROTOCOL WITH THE ASSOCIATION OF UKRAINIAN BANKS (AUB) – SEE ATTACHMENT
- ATCI SIGNS PROTOCOL WITH ALL-UKRAINE ASSOCIATION, “UKRLEASING.”
- ATCI SIGNS PROTOCOL WITH STATE COMMITTEE OF UKRAINE ON HOUSING AND COMMUNAL ECONOMY AND THE UKRAINE ASSOCIATION OF CITIES AND COMMUNITIES
- ATCI SIGNS PROTOCOL WITH STATE MORTGAGE INSTITUTION (SMI) AND UKRAINIAN NATIONAL MORTGAGE ASSOCIATION (UNIA)

III. PROJECT EXECUTIVE SUMMARY

This Report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Access to Credit Initiative, as implemented by consultants for The Pragma Corporation (the Project), for the period from January 1, 2005 through March 31, 2005. The report is comprised of four components: Mortgage, Municipal Finance, Leasing and Credit Bureau. Each component section of the report will have a summary with specific activity tasks identified and the status of each task with appropriate commentary, relevant attachments, and reference to administrative issues, if any.

Logistically, ATCI moved into its permanent office space on February 1. Project registration was received February 15 and accreditation on March 17 facilitating the importation of shipped household goods for senior advisors, the opening of bank accounts in the project's name etc. Recruitment for local professional staff continued during the quarter and hiring was completed for most professional staff persons related to each component.

Technically, project activities concentrated on meetings with counterparts and establishing relationships with officials of newly formed government to implement project objectives.

In early March, Pragma asked Grigori Marchenko, referred to as the father of Kazakhstan's pension fund system, and former Governor of the NNK and First Deputy Prime Minister (See attachment 1) to come to Ukraine for the purpose of meeting high level officials including President Yushenko to discuss the most efficacious way to implement financial reform. Due to some last minute scheduling changes because of a visit to Turkmenistan, President Yushenko was not available. While Governor Marchenko met with other senior officials (See attachment 2), ATCI and USAID determined that a follow-on visit with the president should take place after the GOU had determined its priorities.

Near the end of March, ATCI hosted a reception at the Cabinet of Ministers dining facility to formally announce its operations to the NBU, its counterparts, and the donor community in Ukraine. Four protocols were signed and a presentation was made about ATCI and its activities in Ukraine (See attachments 3-7).

Mortgage

ATCI and the State Mortgage Institution (SMI) signed a Protocol of Intention regarding their future cooperation (See attachment 7). The protocol entertains cooperation in delivering CML courses and in the statistical analysis of mortgage market development as well as refining the legal basis for primary and secondary issuance; development of the business plan, assistance for operational start-up and the adoption of underwriting standards. Extensive work to complete operational start - up is underway. Sixty documents ranging in scope from underwriting standards to master agreements and loan documentation for financial institutions have been conveyed to the SMI and technical assistance is on-going.

Municipal Finance

USAID's original scope of work and Pragma's technical proposal for the Access to Credit project were found to comprise a sound basic framework for promoting bond issuance.

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However, initial optimism among donors about 2001 Budget Code stabilization of intergovernmental transfers has turned to skepticism about reliability of annually appropriated payments. Another problem is how to gain automatic access to municipal funds in case of default, because the Budget Code requires local funds to be held on account with the State Treasury. ATCI will track evolving reforms in municipal finance and through the Legal Task Force on Municipal Issuance, will advocate for adoption. ATCI will also create criteria for municipal transparency, financial strength, and management capability that indicate readiness to enter the bond market. To that end, ATCI executed protocols with State Committee of Ukraine on Housing and Communal Economy and the Ukraine Association of Cities and Communities (See attachment 3).

With the Municipal team in place, and as we acquired more knowledge about the operating environment, we ended the quarter with a strong focus on marketing our services to well-qualified utilities and cities, and completed a marketing visit to the City of Ivano-Frankivsk. The plan of action is detailed in the Municipal Finance section.

Leasing

ATCI assessed the developmental needs of industry participants during the second quarter meeting individually with industry participants (lessors, potential lessees, vendors, and banks); organizing and holding a conference with lessors to discuss their needs and present how ATCI will assist them in the development of their business and the industry as a whole; by participating in the Odessa conference on “Leasing and Other Equipment Financing for Lifting Equipment and Road Building Machinery Industries,” including delivering a presentation on ATCI goals and activities and how investors and lessors assess potential financing projects and by participating and presenting project activities in an conference organized by Ernst & Young on *‘Practical Leasing Operations in Ukraine.’*

ATCI also prepared an initial analysis of the legal, tax and regulatory environment identifying any significant barriers to the development of Ukraine’s leasing industry and general remedies to eliminate those barriers. ATCI established working relationships with Ukrleasing Association (see Protocol MOU attached), other technical assistance (TA) projects, and government bodies with whom the project will work to refine these recommendations and implement necessary reforms.

Based on findings from the above mentioned activity, ATCI together with USAID established the work plan and operating strategy for the Leasing Component for the rest of the year (see attached work plan). This included defining and initiating the development of training seminars, advisory services, and a distribution strategy for a nation-wide informational and educational campaign.

Credit Bureau

ATCI and the AUB signed a protocol of Intentions that sets out what each party can expect from the other. In principle, there are significant entry barriers for the establishment of a credit bureau in Ukraine. Credit bureaus, in order to sell information, require in depth data processing experience, significant financial resources, excellent relationships with data providers, an unsullied reputation and patience, and technical expertise. In the credit bureau industry, very few organizations in the world have that combination of resources and qualities. To the best of our knowledge, there is no organization in the Ukraine that meets that description at this time – and

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this point has been conveyed to all parties, including to the AUB. In our opinion, the only serious competition that the first credit bureau established will face will most likely come from a joint venture arrangement between a foreign based operator and a group of Ukrainian financial institutions. We will reflect the impact of such a possibility in the financial section of the business plan.

In both January and March, ATCI visited with Privatbank to understand its approach to the establishment of a credit bureau. It is clear that the bank would like to have a significant ownership position in a credit bureau and is not happy with the performance for AUB. ATCI continues to broker, as an impartial intermediary, relations between all parties. The bank understands that a market based approach, with multiple credit bureaus, would not be bad for the economy. In this respect, they are engaged in on going discussions with the anti-monopoly committee.

Other

Performance monitoring benchmarks were introduced to USAID for inclusion into Pragma's work plan. The actual benchmarks for performance measurement are under discussion. An issue for resolution is what numbers or events constitute the baselines.

IV. PROJECT STAFFING

The following personnel were engaged in project activities this quarter:

- David Lucterhand, Chief of Party
- Richard Genz, Senior Advisor, Municipal
- Stephen Moody, Senior Advisor, Mortgage
- Javier Piedra, Senior Advisor, Leasing & Credit Bureau
- Rich Caproni, Senior Advisor, Leasing
- James Aziz, Senior Advisor, Credit Bureau
- Dr. Sally Merrill, Senior Advisor, Mortgage
- Bob Homans, Senior Advisor, Leasing
- Douglas Diamond, Senior Advisor, Mortgage
- Norm Masters, Senior Advisor, Mortgage

V. ADMINISTRATIVE ISSUES

NONE

LIST OF ATTACHMENTS

1. Marchenko Bio
2. Marchenko Agenda
3. Protocol on Cooperation with the Association of Ukrainian Cities
4. Protocol on Cooperation with UNMA
5. Protocol on Cooperation with the State Committee on Housing and Communal Economy
6. Protocol on Cooperation with AUB
7. Protocol on Cooperation with SMI

B. MORTGAGE

I. COMPONENT DESCRIPTION

This Report provides details on the events and activities relating to the Mortgage Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from January 1, 2005 through March 31, 2005.

The primary purpose of the ATCI is to develop the primary and secondary mortgage market with its associated infrastructure. Primary market development involves legal review and addressing legislative deficiencies, the use of standardized documentation for underwriting and loan servicing, certification of personnel for mortgage lenders that results in a CML designation; technical assistance to financial institutions engaged in mortgage lending, and assessment of titling and all related processes. Development of the secondary market involves assistance to the newly formed state Mortgage Institution to become operational, development of national mortgage insurance as well as private, term life, and the structuring of mortgage-backed bonds with the appropriate legal environment for issuance. Associated market infrastructure involves appraisers, registration centers, real estate sales practitioners, and appropriate regulation.

While the credit bureau component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation.

II. SIGNIFICANT EVENTS

- PROTOCOL OF INTENTION SIGNED WITH THE STATE MORTGAGE INSTITUTION
- SIXTY ORGANIZATIONAL DOCUMENTS GIVEN TO SMI

III. EXECUTIVE SUMMARY

ATCI and the SMI signed a Protocol of Intention regarding their future cooperation. The protocol entertains cooperation in delivering CML, completion of the business plan, refining the legal basis for primary and secondary issuance; operational start-up and support for the issuance of mortgage bonds. Advisors from the Institute for Urban Economics in Moscow and SMI staff members began delivering the CML curriculum in April. The next priority remains for the SMI Supervisory Board to be formed and approve the underwriting standards that ATCI gave to SMI after which, the business plan can be completed. These standards comport with international standards of practice. Extensive work to complete the business operational start - up is underway. Sixty documents ranging in scope from underwriting standards to master agreements and loan documentation for financial institutions were conveyed to the SMI. Technical assistance from IUE consultants is being provided on corporate structure and staff hiring.

ATCI also met with other donors at a round table organized by The World Bank to discuss areas of interest in establishment of the Mortgage Market in Ukraine. During the discussion, it was clear that USAID and other donors had areas of overlap. Due to unhelpful intervention from TWB specialist for Ukraine's financial sector that included disinformation, USAID decided to

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curtail any further discussion organized by TWB and to engage only in bi-lateral discussions with other donors especially TACIS.

IV. ADMINISTRATIVE ISSUES

NONE

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Mortgage - Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• IUE review of training materials for applicability to Ukraine	<ul style="list-style-type: none">• WORK COMMENCED IN COOPERATION WITH THE UNMA AND SMI TO REVISE CML COURSEWORK FOR DELIVERY IN UKRAINE.
<ul style="list-style-type: none">• Selection of candidates for CML training	<ul style="list-style-type: none">• IN COOPERATION WITH UNMA AND SMI, ATCI HAS SELECTED WHICH BANKS AND OTHER INSTITUTIONS WILL BE SENDING STAFF FOR TRAINING.
<ul style="list-style-type: none">• Develop and administer CML training	<ul style="list-style-type: none">• COURSE MODIFICATION FOR DELIVERY IN UKRAINE IS COMPLETED AND READY FOR DELIVERY
<ul style="list-style-type: none">• Deliver two complete CML courses	<ul style="list-style-type: none">• THE FIRST OF TWO COURSES IS EXPECTED IN THE BEGINNING OF APRIL AND WILL CONTINUE THROUGH MAY AND JUNE. THE SECOND COURSE EXPECTED TO BEGIN IN SEPTEMBER AND CONTINUE THROUGH NOVEMBER.
<ul style="list-style-type: none">• Assess rural lending, titling registration, appraisal of profitable agricultural production units	<ul style="list-style-type: none">• THIS ACTIVITY IS EXPECTED TO BEGIN IN THE THIRD QUARTER OF THE PROJECT

Task 2. Mortgage - Assistance to Banks

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Standardize rules and procedures for retail mortgage lending	<ul style="list-style-type: none">• BOTH UNIA AND SMI HAVE AGREED TO COMMON RULES AND STANDARDS. THESE ARE BEING DISCUSSED DURING CML TRAINING AND WILL BE DISCUSSED DURING ON SITE TECHNICAL ASSISTANCE. DISSEMINATION OF THESE WILL TAKE PLACE DURING THE THIRD QUARTER
<ul style="list-style-type: none">• Select candidate banks for receipt of on –site technical assistance	<ul style="list-style-type: none">• THE SAME BANKS LIKELY TO HAVE STAFF PARTICIPATE IN CML TRAINING WILL BE THE SAME WHO RECEIVE ON SITE TECHNICAL ASSISTANCE.
<ul style="list-style-type: none">• Provide on – site technical assistance	<ul style="list-style-type: none">• THIS WILL COMMENCE IN THE PROJECT’S THIRD AND FOURTH QUARTER AND AFTER COMPLETION OF CML I, II, & III.

Task 3. Mortgage - Home Loan Guarantee

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Analyze market for existing mortgage insurance practices 	<ul style="list-style-type: none"> THE PROJECT COP HAS VISITED WITH A VARIETY OF BANKS TO DETERMINE BOTH THE SCOPE AND VARIETY OF INSURANCE PRODUCTS OFFERED. FINDINGS SHOW A VARIETY OF PRODUCTS IN THE MARKET MOST OF WHICH OFFER MINIMAL RELIEF IN THE CASE OF MORTGAGE DEFAULT AND APPEAR TO BE UNDERWRITTEN BY BANK INSURANCE AFFILIATES. AS A RESULT, SOME BANKS HAVE REDUCED THE LTV RATIOS TO UNWARRANTED LEVELS. ATCI WILL CONTINUE ITS ANALYSIS DURING THE NEXT QUARTER TO DETERMINE THE EXTENT OF THIS PRACTICE AND, ON THE BASIS OF ITS FINDINGS, SUGGEST REGULATORY REMEDIES AS WELL AS DISCUSS WITH INSURANCE PROVIDERS OTHER KINDS OF MI PRODUCTS THAT MIGHT BE OFFERED. THE MARKET APPEARS READY TO USE GUARANTEES OFFERED THROUGH A GUARANTEE FUND.
<ul style="list-style-type: none"> Assess legal and regulatory framework 	<ul style="list-style-type: none"> ASSESSMENT WILL BEGIN IN THE SECOND QUARTER.
<ul style="list-style-type: none"> Complete Feasibility Study 	<ul style="list-style-type: none"> THIS WILL COMMENCE AFTER COMPLETION OF THE ASSESSMENT.
<ul style="list-style-type: none"> Complete Business Plan 	<ul style="list-style-type: none"> THIS WILL FOLLOW THE FEASIBILITY STUDY
<ul style="list-style-type: none"> Assist in operational set-up of guarantee facility 	<ul style="list-style-type: none"> NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> Provide on-site technical assistance to facility 	<ul style="list-style-type: none"> NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> Promote the use of mortgage insurance 	<ul style="list-style-type: none"> ATCI HAS BEEN UNABLE TO DISCUSS WITH MIN FIN AND OTHER GOVERNMENTAL BODIES THE ROLE OF A STATE MORTGAGE GUARANTEE FUND. DISCUSSIONS REGARDING THE USE OF PRIVATE MI WITH BANKS, UNMA AND THE NMB ARE ONGOING. ATCI CONTINUES TO PROMOTE THE IDEA WITH THE SMI.

Task 4. Mortgage - Life Insurance Products

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Analyze insurance and mortgage markets for existing products 	<ul style="list-style-type: none"> THE PROJECT COP HAS VISITED WITH A VARIETY OF BANKS TO DETERMINE BOTH THE SCOPE AND VARIETY OF INSURANCE PRODUCTS OFFERED. FINDINGS SHOW A VARIETY OF PRODUCTS IN THE MARKET. MOST OFFER MINIMAL RELIEF IN THE CASE OF MORTGAGE DEFAULT AND APPEAR TO BE UNDERWRITTEN BY BANK INSURANCE AFFILIATES - NOT MONOLINE INSURERS. THE PRODUCTS INCLUDE, MORTGAGE LIFE INSURANCE, DOWN PAYMENT INSURANCE, AND MORTGAGE DEFAULT INSURANCE. AS A RESULT, SOME BANKS HAVE REDUCED THE LTV RATIOS TO UNWARRANTED LEVELS. HOWEVER, PMI WHEN USED PRUDENTLY, REMAINS A POWERFUL TOOL TO ENFRANCHISE MORE PERSONS TO BECOME HOMEOWNERS BY MITIGATING RISK TO LENDERS. DURING THE THIRD AND FOURTH QUARTERS, ATCI WILL OFFER SPECIFIC RECOMMENDATIONS TO INSURANCE COMPANIES ON HOW PMI SHOULD WORK AS A MORTGAGE PRODUCT. EQUALLY IMPORTANT, THE PMI PRODUCTS SHOULD BE COMPATIBLE WITH UNDERWRITING GUIDELINES USED BY THE SMI.
<ul style="list-style-type: none"> Assess legal and regulatory framework 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> Assess existing actuarial data 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER

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• Select candidate insurers	• ASSESSMENT PHASE IS UNDERWAY
• Develop term sheet and rate structure	• NO ACTION TAKEN THIS QUARTER
• Draft Product policy	• NO ACTION TAKEN THIS QUARTER
• Conduct Road Show with mortgage lending banks and financial institutions	• NO ACTION TAKEN THIS QUARTER

Task 5. Mortgage - Appraisers/Brokers Associations

Defined Activity	Progress Made During Quarter/Proposed Future Actions
• Assessment of UTO and other organizations	• NO ACTION TAKEN THIS QUARTER
• Facilitate development and use of unified methodology	• NO ACTION TAKEN THIS QUARTER
• Work with UAREP	• NO ACTION TAKEN THIS QUARTER
• Study tours to U.S.	• NO ACTION TAKEN THIS QUARTER
• Design, establish and sustain the transaction and price database	• NO ACTION TAKEN THIS QUARTER

Task 6. Mortgage - Mortgage Backed Securities

Defined Activity	Progress Made During Quarter/Proposed Future Actions
• Establish Legal Working Group to assess legal and regulatory basis	• ATCI EXPECTS TO PARTICIPATE/LEAD IN THE FORMATION OF WORKING GROUPS AFTER THE FIRST READING OF THE MORTGAGE SECURITIES LAW IS COMPLETED.
• Select Candidate Issuer	• SEVERAL BANKS ARE BEING CONSIDERED FOR ASSISTANCE IN DOMESTIC AND INTERNATIONAL ISSUANCE: IMB FOR DOMESTIC AND UKRISIB FOR INTERNATIONAL. AS MOST PORTFOLIOS ARE DOLLAR DENOMINATED, MORTGAGES DENOMINATED IN LOCAL CURRENCY ARE IMPORTANT TO MITIGATE CURRENCY RISK IN DOMESTIC ISSUANCE. THIS IS NOT THE CASE FOR INTERNATIONAL ISSUANCE. THERE WAS NO CHANGE IN POTENTIAL CANDIDATES DURING THE QUARTER.
• Draft investment memorandum	• NOTHING DONE THIS QUARTER. FURTHER ACTION IS PREDICATED ON SELECTION OF A PILOT CANDIDATE
• Identify potential investors	• THE COP CONTINUED TO MEET WITH POTENTIAL INSTITUTIONAL INVESTORS TO DESCRIBE FINANCIAL INSTRUMENTS IN FORMATION AND TO GAGE INVESTMENT INTEREST. LIFE INSURANCE COMPANIES AND ASSET MANAGERS OF PRIVATE PENSION FUNDS APPEAR TO BE INITIAL INVESTORS. FURTHER VISITS ARE ANTICIPATED DURING THE THIRD AND FOURTH QUARTERS • THE STATE MORTGAGE WILL ALSO BE AN INVESTOR OF WHOLE MORTGAGES PRECEDENT TO ANY SECURITIZED ISSUE.
•	• NO ACTION TAKEN THIS QUARTER
• Price and Place Issue	• NO ACTION TAKEN THIS QUARTER

LIST OF ATTACHMENTS

NONE

C. MUNICIPAL FINANCE

I. COMPONENT DESCRIPTION

The bond program of the Access to Credit Initiative helps cities and communal service enterprises issue long-term bonds for essential infrastructure. Intensive assistance from the program's team of Ukrainian and international experts in finance, accounting, and law will enable at least five municipalities or communal enterprises to issue bonds. The pilot bonds will demonstrate practices that creditworthy issuers employ to win investor confidence, such as transparent accounts, full disclosure, and financing capital projects that "pay for themselves" with cost savings. A training program will communicate the lessons learned from pilot bonds to city officials nationwide.

Pilot bonds will disclose legal and regulatory obstacles to bond issuance. The program's Legal Task Force on Municipal Issuance will develop solutions and advocate for their enactment. Stable, predictable central government transfers to municipalities, greater fiscal autonomy for cities, and full-cost recovery tariffs for utility companies will be key goals of the Legal Task Force. The Task Force will meet regularly throughout the five-year project, and will receive expert support on legal research and advocacy from the Commercial Law Center.

Key counterpart organizations supporting the bond program are the Association of Ukrainian Cities and the State Committee of Ukraine on Housing and Communal Economy.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- Executed protocols with State Committee of Ukraine on Housing and Communal Economy and the Ukraine Association of Cities and Communities.
- Recruited and hired three Ukrainian financial analysts and one attorney to specialize in municipal finance.
- Recruited expatriate and Ukrainian legal and financial experts to consult on pilot bond issue development.
- Delivered a three-hour presentation to 25 selected utility company executives and mayors at a meeting organized by our counterpart, the State Committee of Ukraine on Housing and Communal Economy. The purpose of the presentation was to invite proposals for bond financing from utility companies.
- In our first marketing trip to recruit Pilot Bond Clients, we met with Ivano-Frankivsk Deputy Mayor and utility chiefs at the end of the quarter to introduce the city and its utility companies to our services.
- Agreed to participate in an ongoing Working Group on Municipal Issuance with the Association of Ukrainian Cities and representatives of Kharkiv and Ivano-Frankivsk. The group will focus on practitioners' direct experience with financial, regulatory, and legal issues that relate to municipal bond issuance. The group will provide practitioner input to the Legal Task Force on Municipal Issuance when it begins meeting later in the year.

III. EXECUTIVE SUMMARY

We recruited and hired four Ukrainian professionals in finance, law, and accounting to focus on the Municipal Bond Component. They began to identify candidate cities and utilities for bond issuance, to develop criteria to allow us to quickly identify the best-qualified candidates, and to research the current legal environment for bond issuance.

We also recruited Ukrainian and expatriate consultants to support the muni bond effort. Financial advisors and international bond counsel were identified (although a contract with identified bond counsel could not be worked out). We scheduled a two-week April visit by a Romanian financial advisor who has successfully led 20 muni bond issues to market there.

The program executed protocols and began to build working relationships with our two counterpart organizations. However, at the end of the quarter we had not yet received the recommendations we expected on creditworthy utility companies.

Input was solicited from two USAID projects whose mission is closely related to that of the Municipal Bond Program: the SEFIR Budget Reform project and the PADCO Tariff Reform project. The former provided data and insight about the workings of the Budget Code, and PADCO provided a list of 12 utility companies that it judged to be financially viable after receiving technical assistance.

With our team in place, and as we acquired more knowledge about the operating environment, we ended the quarter with a strong focus on marketing our services to well-qualified utilities and cities, and completed a marketing visit to the City of Ivano-Frankivsk.

Plan of Action

1. Meet with Ministry of Finance and SSMSC. Present requests for information. Propose that the Ministry of Finance become a counterpart organizations.
2. Develop a thorough understanding of municipal and utility creditworthiness, and how to measure it.
3. Market our team's financial advisory services to qualified cities and utility companies. Execute Memorandum of Understanding with candidates that appear to be creditworthy, proceed to in-depth Bond Capacity Assessment, and identify Pilot Bond Clients.
4. Bring practitioner expertise to the team with consulting visit of Romanian financial advisor who is expert in muni bonds.
5. Determine the basic characteristics of "real," arms-length, corporate and muni bond transactions, to provide a baseline for structuring pilot bond issues.
6. Identify and contract with international bond counsel, and schedule visit to Ukraine. When schedule is fixed, meet with Commercial Law Center, identify Task Force members, and schedule first meeting of Legal Task Force on Municipal Issuance.

IV. ADMINISTRATIVE ISSUES

Execute consulting contracts with Ukrainian finance and local budget experts.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Municipal Finance – Constraints to Bond issuance

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> Assemble Legal Task Force for Municipal Issuance 	<ul style="list-style-type: none"> WE IDENTIFIED AN INTERNATIONAL BOND COUNSEL IN EARLY FEBRUARY AND PLANNED AN APRIL 3-WEEK CONSULTANCY. WE PREPARED A SCOPE OF WORK FOR UPDATING LEGAL-REGULATORY OBSTACLES TO BOND ISSUANCE, AND ADVISED THE COMMERCIAL LAW CENTER TO PREPARE FOR THE FIRST MEETING OF THE LEGAL TASK FORCE FOR MUNICIPAL ISSUANCE ON APRIL 26. INTERNATIONAL BOND COUNSEL WOULD PRESENT FINDINGS AND RECOMMEND AGENDA FOR REFORMS. HOWEVER, AT THE END OF MARCH WE WERE UNABLE TO COME TO MUTUALLY ACCEPTABLE TERMS WITH THE INTERNATIONAL BOND COUNSEL. THE APRIL TRIP WAS CANCELLED, AND WE BEGAN IMMEDIATELY TO RECRUIT ANOTHER INTERNATIONAL BOND COUNSEL.
<ul style="list-style-type: none"> Develop Roadmap for Bond Issuance by Municipalities 	<ul style="list-style-type: none"> WE PREPARED A FIVE-PAGE INFORMATION GUIDE FOR POTENTIAL PILOT BOND CLIENTS EXPLAINING HOW THE MUNI BOND PROGRAM WILL ASSIST CITIES AND UTILITY COMPANIES, FROM PRELIMINARY FEASIBILITY ANALYSIS TO BOND ISSUANCE TO INFORMATION DISSEMINATION. WE RECRUITED MR. VIOREL UDMA, FINANCIAL ADVISOR FOR 20 ROMANIAN MUNI BOND ISSUES, TO VISIT UKRAINE FOR 2 WEEKS IN APRIL TO EXPLAIN THE STEP-BY-STEP PROCESS FOR IDENTIFYING PILOT BOND ISSUE CANDIDATES AND TAKING CREDITWORTHY CANDIDATES FROM FEASIBILITY ANALYSIS TO BOND ISSUANCE. WE PREPARED UTILITY COMPANY SELECTION CRITERIA FOR DISTRIBUTION TO SELECTED COMMUNAL SERVICE ENTERPRISES BY OUR COUNTERPART, THE STATE COMMITTEE OF UKRAINE ON HOUSING AND COMMUNAL ECONOMY
<ul style="list-style-type: none"> Short-Term Advisor: Investigate Legal and Financial Issues 	<ul style="list-style-type: none"> NOTE: SEE ACTIVITY RE: LEGAL TASK FORCE FOR MUNICIPAL ISSUANCE, DESCRIBED ABOVE. ON MARCH 31, MR. SERHIY YURHELEVICH BEGAN FULL-TIME WORK AS LEGAL ADVISOR, WITH A FOCUS ON MUNICIPAL BOND ISSUANCE. MR. YURHELEVICH HAS FIVE YEARS' EXPERIENCE ANALYZING FINANCIAL LAW, AND DRAFTING NEW LEGISLATION, WITH A TACIS PROJECT. HE BEGAN TO STUDY AND UPDATE THE 2002 DEANGELIS REPORT ON UKRAINE'S LEGAL/REGULATORY ENVIRONMENT FOR BOND ISSUANCE. OUR FINANCIAL ANALYST STUDIED INVESTMENT MEMORANDA FOR THREE PREVIOUS UKRAINIAN BOND ISSUES AND OUTLINED THEIR COMMON CHARACTERISTICS.

Task 2. Municipal Finance – Prepare for a Pilot Issue

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> Initiation of pilot 	<ul style="list-style-type: none"> WE MET WITH THE MUNICIPAL DEVELOPMENT INITIATIVE (FORMERLY PADCO/USAID TARIFF REFORM PROJECT) AND RECEIVED A LIST OF 12 UTILITY COMPANIES THAT WERE JUDGED FINANCIALLY VIABLE BY THE PADCO PROJECT. WE BEGAN CONTACTING EACH OF THESE COMPANIES TO SCHEDULE MEETINGS TO EXPLAIN OUR SERVICES. OUR COUNTERPART, THE STATE COMMITTEE OF UKRAINE ON HOUSING AND COMMUNAL ECONOMY, ADVISED THAT THEY COULD READILY IDENTIFY AS MANY AS 10 CREDITWORTHY UTILITY COMPANIES IN UKRAINE. DEPUTY CHAIRMAN BILYANSKI INVITED US TO MAKE A PRESENTATION TO SOME 25 MAYORS AND

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	<p>UTILITY EXECUTIVES ABOUT OUR SERVICES, WHICH WE DID ON FEBRUARY 17. STANDARD & POORS CIS ALSO PARTICIPATED. BY THE END OF THE QUARTER WE HAD NOT RECEIVED A RESPONSE FROM THE STATE COMMITTEE TO OUR REQUESTS FOR INFORMATION ABOUT PROPOSALS.</p> <ul style="list-style-type: none">• ON MARCH 16, MR. STEPAN MAKOVYAK BEGAN FULL-TIME WORK AS FINANCIAL ANALYST. A CHARTERED ACCOUNTANT WHO HAS WORKED AS A USAID CONTRACTOR WITH PRICE-WATERHOUSE, MR. MAKOVYAK SPENT FOUR YEARS AS AN EQUITY ANALYST WITH THE AMERICAN-OWNED FIRM FOYIL SECURITIES. THERE HE SPECIALIZED IN ANALYZING UTILITY STOCKS. STEPAN BEGAN ARRANGING MEETINGS WITH UTILITY COMPANIES AND DEVELOPING A CREDITWORTHINESS SCREENING METHODOLOGY.• IN LATE MARCH STEPAN MAKOVYAK AND RICHARD GENZ TRAVELED TO IVANO-FRANKIVSK FOR OUR FIRST VISIT WITH A POTENTIAL PILOT BOND CLIENT. THE CITY WAS SELECTED FOR A VISIT BASED ON THE RECOMMENDATION OF USAID MUNICIPAL STAFF. WE MET WITH DEPUTY MAYOR SYNYUTKA AND THE CHIEFS OF THE HEAT AND WATER UTILITIES. THE CITY EXPRESSED STRONG INTEREST IN COOPERATING WITH THE MUNICIPAL BOND PROGRAM, DIRECTLY AND THROUGH THE CITY-OWNED UTILITY COMPANIES.• DR. OLGA ROMANYUK JOINED THE STAFF IN MARCH AS FINANCIAL ANALYST, WITH SPECIALIZATION IN PUBLIC BUDGETING. SHE BEGAN WORK ON A CREDITWORTHINESS EVALUATION METHODOLOGY FOR CITIES.• THE ASSOCIATION OF UKRAINIAN CITIES PROPOSED THAT WE JOINTLY FORM A WORKING GROUP ON MUNICIPAL ISSUANCE, WITH REPRESENTATIVES FROM KHARKIV, IVANO-FRANKIVSK, OUR PROGRAM, AND THE ASSOCIATION. THE FIRST MEETING WAS SET FOR EARLY APRIL.
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Task 3. Municipal Finance – Issuance

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Implementation	<ul style="list-style-type: none">• TO ASSIST IN IMPLEMENTATION OF PILOT ISSUES, WE DEVELOPED A SCOPE OF WORK FOR A MUNICIPAL BOND FINANCIAL ADVISOR WITH EXPERIENCE IN ROMANIA AND BULGARIA. HIS SCOPE INCLUDES: 1) BENCHMARKING GENUINE, ARMS-LENGTH CORPORATE AND MUNI BONDS ISSUED IN UKRAINE TO DATE 2) SCREENING CRITERIA TO GUIDE MARKETING OF OUR SERVICES TO QUALIFIED CITIES AND UTILITIES 3) A ROADMAP TO MUNI ISSUANCE BASED ON EXPERIENCE IN ROMANIA. THE WORK WILL BE ACCOMPLISHED IN APRIL 2005.• THE DATE OF ACTUAL PILOT BOND ISSUANCE WILL DEPEND ON THE SPECIFIC CHALLENGES DISCOVERED AS WE IDENTIFY AND SUPPORT THE CANDIDATE ISSUERS.

Task 4. Municipal Issuance – Legislation and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Workshops and public education	<ul style="list-style-type: none">• DENIS GAIIOVY JOINED THE STAFF FULL-TIME IN MARCH AS A FINANCIAL ANALYST. ONE OF HIS RESPONSIBILITIES IS TO KEEP CURRENT ON DEVELOPMENTS IN UKRAINE'S BOND MARKET. HE WILL ALSO BE RESPONSIBLE FOR DEVELOPING CONTENT FOR THE MUNI BOND PROGRAM'S SECTION OF ATCI'S WEBSITE. THE WEBSITE WILL PRESENT INVESTMENT MEMORANDA FROM THE

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	<p>FEW EXISTING UKRAINIAN MUNI BOND ISSUES. WE WILL ALSO INCLUDE PUBLIC INFORMATION FROM MINISTRY OF FINANCE AND THE SSMSC ABOUT EXISTING MUNICIPAL BORROWINGS. AS THE LEGAL TASK FORCE AND PILOT ISSUES GENERATE INFORMATION, REPORTS, FINANCING TECHNIQUES, ETC. THAT WOULD BENEFIT OTHER POTENTIAL ISSUERS AND POLICYMAKERS, WE WILL DESIGN PUBLIC INFORMATION METHODS TO DISSEMINATE THEM. WORKSHOPS FOR POLICYMAKERS, INCLUDING VERKHOVNA RADA DEPUTIES AND STAFF, WILL BE A KEY PART OF THE LEGAL TASK FORCE ON MUNICIPAL ISSUANCE. THE COMMERCIAL LAW CENTER WILL ASSIST WITH PREPARATION OF SUCH WORKSHOPS.</p> <ul style="list-style-type: none">• AFTER ONE OR TWO PILOT BONDS HAVE BEEN ISSUED, WE WILL WORK WITH OUR COUNTERPART ORGANIZATIONS ASSOCIATION OF UKRAINIAN CITIES AND STATE COMMITTEE OF UKRAINE ON HOUSING AND COMMUNAL ECONOMY TO DISSEMINATE LESSONS LEARNED TO CITIES AND UTILITY COMPANIES.
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LIST OF ATTACHMENTS

Description of Municipal Bond Program Five-Year Strategy (Marketing and PR Tool)

D. LEASING

I. COMPONENT DESCRIPTION

This report provides details on events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from January 1, 2005 through March 31, 2005.

The primary purpose of the Leasing Component is not only to create a supportive environment for modern financial leasing but to provide specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. Leasing is an efficient alternative to bank financing.

ATCI will aim to strengthen existing leasing companies. Capacity building will consist of training and consulting for lessors, lessees, farmers, regulators, and other interested parties, such as vendors and banks. In addition, ATCI will seek potential foreign investors as well as conduct public awareness efforts.

Moreover, the Leasing Component will develop the cadre of leasing professionals by introducing the Certified Leasing Professional (CLP), a designation for market participants so that they may attain world standards of practice.

ATCI will continue to support and/or develop the proper legislative and regulatory framework to support the leasing industry and the entry of foreign capital to support the leasing sector.

II. SIGNIFICANT EVENTS

- PROTOCOL SIGNED WITH ALL-UKRAINE ASSOCIATION, “UKRLEASING.”
- HIRED LOCAL TEAM AND INTERNATIONAL SPECIALISTS
- PRESENTATION OF ATCI GOALS AND PLANNED ACTIVITIES TO LEASING COMPANY MEMBERS OF UKRLEASING
- PRESENTATION AND PARTICIPATION AT ODESSA CONFERENCE ON “METHODS OF FINANCING FOR THE LIFTING AND ROAD BUILDING MACHINERY INDUSTRIES.”
- NEW “LAW ON BUDGET OF UKRAINE” PASSED THAT IMPOSES IMMEDIATE NEGATIVE TAX CONSEQUENCES FOR LEASING

III. EXECUTIVE SUMMARY

In assessing the developmental needs of industry participants ATCI:

- Met individually with industry participants (lessors, potential lessees, vendors, and banks);

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- Organized and held a conference with lessors to discuss their needs and present how ATCI will assist them in the development of their business and the industry as a whole;
- Participated in Odessa conference on “Leasing and Other Equipment Financing for Lifting Equipment and Road Building Machinery Industries,” including delivering a presentation on ATCI goals and activities and how investors and lessors assess potential financing projects.
- Participated and presented project activities in an conference organized by Ernst & Young on ‘*Practical Leasing Operations in Ukraine.*’

ATCI prepared an initial analysis of the legal, tax and regulatory environment identifying any significant barriers to the development of Ukraine’s leasing industry and general remedies to eliminate those barriers (see attached). ATCI established working relationships with Ukrleasing Association (see Protocol MOU attached), other technical assistance (TA) projects, and government bodies with whom the project will work to refine these recommendations and implement necessary reforms.

Based on findings from the above mentioned activity, ATCI together with USAID established the work plan and operating strategy for the Leasing Component for the rest of the year. This included defining and initiating the development of training seminars, advisory services, and a distribution strategy for a nation-wide informational and educational campaign.

ATCI has engaged Robert Teichman, CLP and Board Member of the Certified Leasing Professional Foundation in the U.S to assist in developing a CLP program for Ukraine as well as assist in developing capacity building seminars for industry participants. ATCI and Ukrleasing Association together confirmed a strong desire among lessors for a CLP program in Ukraine. The Leasing Component will continue to work with industry participants to define a program appropriate for Ukraine, including the establishment a working group for this purpose.

Due to turnover at the management level of the IFC Leasing Development Project and general inactivity by said project, ATCI and USAID determined that a “division” of responsibilities relative to development of Ukraine’s leasing industry was not possible at this time. Thus, it was determined that the strategy ATCI’s Leasing Component will need to be comprehensive with regard to facilitating the industry’s development. ATCI and USAID will reassess this in the next quarter with the new IFC Project Manager to determine appropriate levels of cooperation and leveraging of resources.

IV. ADMINISTRATIVE ISSUES

ATCI has engaged:

- 1) *Robert Homans* as a short-term technical advisors to facilitate the leasing components advisory services to industry participants, and
- 2) *Robert Teichman*, CLP and Board Member of the Certified Leasing Professional Foundation in the U.S., to facilitate the development and delivery of capacity building seminars for industry participants and establishment of a Certified Leasing Professional (CLP) program for Ukraine.
- 3) *Richard Caproni*, as long-term Senior Advisor to manage ATCI’s Leasing Component.

The following local consultants that will focus mainly on leasing were hired:

- Serhiy Kysil, Senior Legal Advisor

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- Liliya Snigir, Leasing and Credit Advisor
- Roman Shynkarenko, Leasing and Credit Advisor

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Determine capacity building needs of industry participants including demand for CLP	<ul style="list-style-type: none">▪ SIGNED PROTOCOL (MOU) WITH ASSOCIATION “UKRLEASING” THAT INCLUDES CAPACITY BUILDING ACTIVITY AND ESTABLISHING A CLP.▪ BEGAN MEETINGS WITH LESSORS TO ASSESS TRAINING NEEDS AND INTEREST IN CLP.▪ INITIATED MEETINGS WITH VENDORS IN THE AGRICULTURAL AND MEDICAL EQUIPMENT INDUSTRIES TO ASSESS DESIRE FOR ESTABLISHING VENDOR PROGRAMS WITH LESSORS.▪ WILL CONTINUE TO WORK WITH UKRLEASING, LESSORS, BANKS, VENDORS, AND LESSEES TO FURTHER DEFINE CAPACITY BUILDING NEEDS OF MARKET PARTICIPANTS.
<ul style="list-style-type: none">• Develop and deliver training seminars for industry participants	<ul style="list-style-type: none">▪ ESTABLISHED KEY CONTENT AREAS OF TRAINING REQUIRED BY INDUSTRY PARTICIPANTS.▪ WILL DEVELOP AND DELIVER CORRESPONDING TRAINING SEMINARS BEGINNING IN THE NEXT QUARTER.▪ HIRED BOB TEICHMAN, CLP TO HELP DEVELOP TRAINING MATERIALS AND PROVIDE A ‘TRAIN-THE-TRAINER’ SEMINAR FOR KYIV-BASED TEAM IN THE NEXT QUARTER.
<ul style="list-style-type: none">• Initiate development of CLP Program for Ukraine	<ul style="list-style-type: none">▪ THROUGH MEETINGS WITH UKRLEASING AND LESSORS, ESTABLISHED THAT A STRONG DEMAND EXISTS FOR A CERTIFICATION PROGRAM.▪ ESTABLISHED RELATIONSHIP WITH CLP FOUNDATION IN US THROUGH BOB TEICHMAN WHO SERVES ON THE BOARD OF DIRECTORS.▪ WILL CONTINUE TO WORK WITH INDUSTRY PARTICIPANTS TO DETERMINE THE MOST APPROPRIATE FORMAT FOR CLP IN UKRAINE, INCLUDING ESTABLISHMENT OF A CLP WORKING GROUP IN THE NEXT QUARTER.

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Identify barriers and facilitate reforms to a favorable legal, tax and regulatory environment for leasing in Ukraine	<ul style="list-style-type: none">▪ PREPARED INITIAL ANALYSIS OF LEGAL, REGULATORY AND TAX ISSUES TO USE AS WORKING DOCUMENT WITH OTHER INDUSTRY STAKEHOLDERS IN ESTABLISHING A COMMON VIEW WITH REGARD TO NECESSARY REFORMS.▪ WILL WORK WITH INDUSTRY STAKEHOLDERS, INCLUDING OTHER TA PROJECTS TO FINALIZE ANALYSES REGARDING REQUIRED REFORMS TO CREATE A FAVORABLE ENVIRONMENT FOR THE DEVELOPMENT OF LEASING IN UKRAINE IN NEXT QUARTER.▪ WILL HOLD CONFERENCE (S), PARTICIPATE IN WORKING GROUPS, AND PROVIDE ADVISORY SERVICES ON HOW TO IMPROVE THE LEGISLATIVE AND TAX ENVIRONMENT IN UKRAINE.
<ul style="list-style-type: none">• Assess market conditions for leasing operations in Ukraine	<ul style="list-style-type: none">▪ MET WITH LESSORS, BANKS, AND VENDORS TO DETERMINE GENERAL MARKET BARRIERS TO THE DEVELOPMENT OF LEASING IN UKRAINE.▪ ORGANIZED AND HELD A CONFERENCE WITH LESSORS TO DISCUSS THEIR NEEDS AND PRESENT HOW ATCI WILL ASSIST THEM IN THE DEVELOPMENT OF THEIR BUSINESS AND THE INDUSTRY AS A WHOLE.▪ WILL HOLD CONFERENCE AND ESTABLISH WORKING IN NEXT QUARTER TO ADDRESS STRATEGIES FOR ADDRESSING MARKET

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	BARRIERS AND ESTABLISHING LEASING BEST PRACTICE FOR UKRAINE.
<ul style="list-style-type: none">• Establish distribution network for educational and informational materials and activities	<ul style="list-style-type: none">▪ SIGNED PROTOCOL W/ UKRLEASING ASSOCIATION.▪ ESTABLISHED AGREEMENT WITH CURE AND CEUME ON DISTRIBUTION OF EDUCATIONAL MATERIALS AND ORGANIZATION OF EDUCATIONAL EVENTS THROUGHOUT UKRAINE.▪ WILL CONTINUE TO ESTABLISH ADDITIONAL PARTNERSHIPS AND AGREEMENTS WITH INDUSTRY STAKEHOLDERS INCLUDING OTHER TA PROJECTS, VARIOUS ASSOCIATIONS AND STAKEHOLDERS OF PRIORITY INDUSTRIES (AGRICULTURE, MEDICAL EQUIPMENT, SMES, ETC.), RELEVANT GOVERNMENT BODIES, ETC. TO MAXIMIZE EFFECTIVENESS OF INFORMATIONAL AND EDUCATIONAL ACTIVITIES.▪ WILL ESTABLISH WEB PRESENCE NEXT QUARTER.
<ul style="list-style-type: none">• Conduct nation-wide informational and educational campaign on international best practice in leasing	<ul style="list-style-type: none">▪ PARTICIPATED IN ODESSA CONFERENCE ON “<i>LEASING AND OTHER EQUIPMENT FINANCING FOR LIFTING EQUIPMENT AND ROAD BUILDING MACHINERY INDUSTRIES</i>,” INCLUDING DELIVERING A PRESENTATION ON ATCI GOALS AND ACTIVITIES AND HOW INVESTORS AND LESSORS ASSESS POTENTIAL FINANCING PROJECTS.▪ PARTICIPATED AND DELIVERED PRESENTATION IN ALL-DAY CONFERENCE ORGANIZED BY ERNST & YOUNG ON ‘<i>PRACTICAL LEASING OPERATIONS IN UKRAINE</i>.’

Task 3. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Identify key development needs of industry participants and assess demand for advisory services	<ul style="list-style-type: none">▪ MET WITH LESSORS TO ASSESS ORGANIZATIONAL DEVELOPMENT NEEDS▪ MET WITH VENDORS TO ASSESS KNOWLEDGE, EXPERIENCE, AND DEMAND FOR INCORPORATING FINANCING INTO THEIR MARKETING AND SALES STRATEGY.▪ WILL FURTHER DEFINE MAIN ORGANIZATIONAL DEVELOPMENT NEEDS OF INDUSTRY PARTICIPANTS TO UTILIZE LEASING BEST PRACTICES, IMPROVE AND GROW THEIR INDIVIDUAL BUSINESSES, AND THUS FACILITATE DEVELOPMENT OF THE LEASING INDUSTRY AS A WHOLE.
<ul style="list-style-type: none">• Provide ad-hoc advisory services	<ul style="list-style-type: none">▪ WILL INITIATE ADVISORY SERVICE ENGAGEMENTS WITH INDUSTRY PARTICIPANTS ON A TRANSACTION BASIS IN NEXT QUARTER▪ WILL ENGAGE INDIVIDUAL LESSORS FOR ON-SITE ADVISORY SERVICES TO ASSESS EFFECTIVENESS OF ORGANIZATIONAL STRATEGIES AND OPERATIONS AND RECOMMEND IMPROVEMENTS IN NEXT QUARTER

LIST OF ATTACHMENTS

Protocol on Cooperation with UkrLeasing Association
Analysis of Legal Environment for Leasing

D. CREDIT BUREAU/CREDIT RATING AGENCY

I. COMPONENT DESCRIPTION

Credit Bureau

This report provides details on events and activities relating to the Credit Bureau component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from January 1, 2005 through March 31, 2005.

The objective of this activity is to establish and develop a Credit Bureau in Ukraine; it is a key piece of financial infrastructure. A Credit Bureau serves as a financial intermediary between the lender and the borrower in order to stimulate, in the first instance, the SME and retail markets within a free market competitive economic system.

A Credit Bureau helps to develop a solid middle class and produces both short and long term benefits to an economy by empowering the citizens in any country with greater mobility, greater opportunity, and, in the long run, by providing individuals with greater resilience against economic shocks. A Credit Bureau provides products, services, convenience, security, acknowledgment, accessibility, and low costs to all individuals in society. The result is increased access to credit across the income spectrum, greater purchasing power for individuals and the improved transparency of small businesses – essential for development of a robust mortgage lending environment

The practical definition of a Credit Bureau, for design and implementation purposes in Ukraine, is one of an impartial entity that will store all past and present credit transactions entered into by a particular legal or physical person, and one that will indicate the manner in which the subject of the credit profile repaid the obligation to the respective creditors. The Credit Bureau must contain gender neutral demographic information on a consumer to ensure proper identification, information that is pertinent to their creditworthiness, and an indication of the overall risk relating to an applicant. The Credit Bureau will provide an avenue for the verification or validation of any information that may be questioned or disputed by the subject of the credit profile. A Credit Bureau serves both parties in a credit transaction and is an excellent tool to reduce risk and facilitate and accelerate the approval process.

II. SIGNIFICANT EVENTS

- ACTI SIGNS PROTOCOL WITH THE ASSOCIATION OF UKRAINIAN BANKS (AUB)
- “FINAL” DRAFT OF CREDIT BUREAU LAW COMPLETED – ADDITIONAL AMENDMENTS ANTICIPATED UPON REVIEW BY PARLIAMENTARY WORKING GROUP – SEE ATTACHMENT
- INTERNATIONAL CREDIT BUREAU OPERATORS CONFIRM INTEREST IN UKRAINE
- MARKET REMAINS SPLIT – IT IS INCREASINGLY LIKELY THAT THERE WILL BE AT LEAST TWO CREDIT BUREAUS ESTABLISHED.
- PRIVATBANK AND OTHER BANKS REFUSE TO PARTICIPATE WITH AUB

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- BUSINESS PLAN IN PREPARATION – SEE ATTACHMENTS OF WRITE-UP FOR INSURANCE PRODUCTS AND INDUSTRY
- AUB INDICATED THEY WILL SOON REGISTER A CREDIT BUREAU COMPANY
- AUB CONFIRMS THAT AUB-SUPPORTED BANKS WOULD AGREE TO OWNERSHIP PARTICIPATION BY CREDIT UNIONS AND INSURANCE COMPANIES.
- SIGNIFICANT GAINS IN MARKETING CREDIT BUREAU TO NON-FINANCIAL SECTOR
- TELECONS CONFIRM INTEREST IN CREDIT BUREAU ALTHOUGH DATA SHARING WITH BANKS UNCLEAR.
- LEAGUE OF INSURANCE ORGANIZATIONS AGREED TO POLL MEMBERS AND PROVIDE INFORMATION ON THE DOLLAR AMOUNT OF ANNUAL FRAUD

III. EXECUTIVE SUMMARY

ACTI signs Protocol with the Association of Ukrainian Banks (AUB) in January. Under the Protocol, the ATCI will assist (and is assisting) in the development of a credit bureau business plan, will provide consultancy on a daily basis during the bureau development period in order to ensure compliance with international standards of best practice, will assist in contract negotiations with foreign technical partners on matters of a business, technical and legal nature, and will provide to the market key educational and capacity building material – primarily directed at data sharing.

In addition the ATC project will help design, facilitate and provide joint seminars, training, marketing, conferences, round table discussions, forums and other events and actions in order to deepen public awareness of the role of credit bureaus, to encourage data sharing, facilitate data/credit report usage, and other similar activities as envisaged in this Protocol.

The Credit Bureau component of ATCI remains a high priority for Ukraine and its financial sector. From January 1, 2005 through March 31, 2005, Pragma built on successes of the last quarter by pushing forward the draft Credit Bureau law, further consolidating the commercial banks' interest in Ukraine to fund a private credit bureau, and deepening awareness in the financial sector of a credit bureau's role in risk management and increased access to credit for consumers. Pragma, based on experience in other markets and multiple interviews in country, understands the education challenges in communicating to all stakeholders the importance of data sharing.

The first credit bureau to be set up is expected to experience competition over the short-term, particularly since business opportunities in Ukraine are extensive and draft legislation permits the establishment of multiple bureaus. The initial group of companies that could be investors in a credit bureau include the following: Ukrsofsbank, Aval Bank, Ukrsibbank, Bank Nadra, Pravexbank - these are mentioned because of their size within the market. There are a number of smaller banks as well.

With respect to competition in the market, some credit unions, for example, could move to establish their own exclusive system for data exchange, which could negatively impact business opportunities for a credit bureau established by a majority of the mid-size Ukrainian banks.

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Alternatively, a group of private banks, led by Privatbank, for example, could engage one of the major private credit bureau operators (such as the D&B, the Creditinfo Group, or Experian) and set up their own database that could include other non-bank financial sector companies with proprietary information.

In both January and March, ATCI visited with Privatbank to understand its approach to the establishment of a credit bureau. It is clear that the bank would like to have a significant ownership position in a credit bureau and is not happy with the performance for AUB. ATCI continues to broker, as an impartial intermediary, relations between all parties although understands that a market based approach, with multiple credit bureaus, would not be bad for the economy. In this respect, discussions continue with the anti-monopoly committee.

In principle there are significant entry barriers for the establishment of a credit bureau in Ukraine. Credit bureaus, in order to sell information, require in depth data processing experience, significant financial resources, excellent relationships with data providers, an unsullied reputation and patience, and technical expertise. In the credit bureau industry, very few organizations in the world have that combination of resources and qualities. To the best of our knowledge, there is no organization in the Ukraine that meets that description at this time – and this point has been conveyed to all parties, including to the AUB. In our opinion, the only serious competition that the first credit bureau established will face will most likely come from a joint venture arrangement between a foreign based operator and a group of Ukrainian financial institutions. We will reflect the impact of such a possibility in the financial section of the business plan.

The Government of Ukraine, while remaining at a distance from the day-to-day activities to develop a credit bureau, is determined to establish a system of private credit bureaus that will serve the entire country. In order to ensure successful passage of the law, Pragma continued to work with all stakeholders and remains in close contact with the Commercial Law Center and the AUB, amongst others.

In preparing the business case and otherwise understanding the factors to develop a credit bureau in Ukraine, Pragma is focusing on five issues encountered in Ukraine:

1. Credit Bureaus must commence from a base of zero information. Data must be identified, analyzed for usefulness, and loaded into the credit bureau, starting with identification data. The less information available, the longer and more costly it will take to build the bureau. In Ukraine, it has been established that individual demographic information (public record data) exists, although its availability to the bureau is not clear at this time.
2. Ukraine is still essentially ‘cash based’ with little availability of unsecured lending, indicating the need to develop a “credit culture”. Building a credit culture process must be aimed at individuals, potential suppliers of retail credit information and enterprises that are or could participate as lenders in the retail, leasing, mortgage and SME credit markets. The concept of credit still makes certain individuals uncomfortable.
3. As reported earlier, draft legislation has been prepared and is acceptable. As of this writing, however, existing legislation governing credit bureaus does not unambiguously support the disclosure of some types of personal data (credit or demographic) to make a credit bureau a

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profitable enterprise. Legislation and/or conflicting legislation governing the dissemination of personal credit information tends to be restrictive, which is an impediment to building a central and comprehensive database. Until Ukraine's Credit Bureau Law is passed, Ukraine currently falls into this category. Privacy and confidentiality of data are key issues that legislation will address.

4. Members of the banking community, for competitive reasons, often mistrust the concept of credit bureaus. They have concerns that if they share their proprietary information on their retail and SME loan customers with the Credit Bureau, competing banks will have access to this information. That access will result in other banks selectively attempting to convince another bank's retail loan customers to switch their business, thus having a potentially negative impact on profitability. This attitude impedes data sharing, which is a fundamental principle underpinning the construction of a credit bureau data base.
5. The marketplace has no experience with Credit Bureaus and while, conceptually, a Credit Bureau is an "easy" sell to those businesses that would benefit, there is not a thorough understanding of the total benefits to the economy of the country and to the public. The ownership of a proposed Credit Bureau must be patient as the database is being constructed and must have available funds to offset operating costs that will occur, for an extended period time, until Credit Bureau products have been tested and deemed appropriate for sale in the marketplace.
6. Technical issues are significant challenges in the development phase of a credit bureau. Both data supply and efficient and secure access mechanisms must be tested and designed. In Ukraine, these issues will be challenges although technical expertise and data management capabilities among banks are extremely advanced, facilitating data uploading, transfer and access issues. The business case will contain a full technical section with action plan and timelines.

Preparation for full debate of the Credit Bureau Law remained a key focus of efforts from January 1, 2005 through March 31, 2005. The draft law touches on one of the most sensitive issues surrounding the establishment and operation of a Credit Bureau: the trade-off between the protection of personal privacy and the flow of information. During the quarter, Pragma reviewed with the drafters of the law the importance and purpose of credit bureaus within the context of European and North American legal environment.

Discussions with potential international investors continued and revolved around the status of the draft law, the business case, and related technical issues. Experian and Creditinfo have again reconfirmed their willingness to provide technical assistance and/or strategic investment under the right conditions. These companies are considering a joint venture (direct foreign investment) with the local banks but need further clarity with respect to the law, management structure and client base.

During the period, ATCI analyzed the National Bank of Ukraine's Database – no confidential data was seen. The database was set up in 2001 and is made up of bad debt credits. Currently there are 6,400 accounts in the database. Reporting is voluntary and selective amongst reporting banks of which there are 99. Information is transmitted electronically. The minimum amount to

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be reported is \$10000 UAH (\$2000 USD). When an account is paid in full, the information is deleted from the database. This database is deemed to be unreliable and of little value.

The Ukrainian Passport was determined to be the most reliable identifier of Natural Persons. Application for a Passport must be made when a natural person turns the age of sixteen (16). Business is not conducted without presentation of the Passport as identification. The Passport also contains the natural person's address, their marital status, name of spouse, names of children (if any), place and date of birth and date Passport issued.

In connection with the financial section of the business plan, the financials are being designed to provide a better understanding of the sources and uses, quality, timing and magnitude of cash flows given 5 different financial scenarios. The scenarios will reflect the 3 Phased Business/Marketing Strategy outlined in the previous section. The cash flow projections (sources and uses) serve as a benchmark and allow potential investors to estimate profitability and rates of return given revenue/expense assumptions.

In addition, the cash flow scenarios will be presented to help:

- anticipate financing needs, financial flexibility, and funding mix;
- weigh business risks and opportunity costs against strategic objectives;
- estimate management flexibility in pricing, product sales, discounts, or special offers to attract business and/or fight off potential competition in the future;
- estimate long-term earning power and quality;
- plan for staffing and equipment over time given potential business expansion and competition.

Since there is no precedent for a Credit Bureau in Ukraine, there is no clear historical experience to help estimate the demand function for credit bureau services. Product offerings, their market entry, penetration, and proposed pricing are based on a combination of quantitative and qualitative data: interviews, statistical and economic data, credit processing costs, an analysis of the consumer market as well as other research outlined throughout this report. We are incorporating into our analysis the experience and practices of credit bureaus internationally for pricing, penetration and product offerings.

ATCI will use historical data on the demand for credit as a proxy and the starting point for estimating the overall demand for Credit Bureau services over the short term. This assumption, given that banks currently dominate the credit markets, is reasonable, and provides an excellent benchmark for estimating non-bank sources of demand. Surveys of both banks and credit unions will serve as a basis for a number of key assumptions used in this report. In addition we are analyzing key demographic data, wage and income levels, and some other economic indicators in estimating demand. Our analysis quantifies and qualifies all available loan data as of year-end 2004: types, amounts, volumes, number, and sources. The data is being obtained from various sources including the National Bank of Ukraine, Ministry of Economy and the International Monetary Fund, private banks, credit unions, insurance companies, and the leasing industry. Information sources include a mixture of published material and interviews. To our basic benchmark bank demand numbers from financial institutions, demand from insurance and utility

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companies as well as from the merchant sector will strengthen the Credit Bureaus revenue stream.

Because of the lack of quantitative data to estimate demand from “non-traditional” Credit Bureau users in Ukraine, we will not attempt to calculate application rates from landowners, collection agencies, and employment agencies. Credit Bureaus in other markets, however, experience some demand from these sources.

Presentation of Financials

The financial statements are expected to be presented in constant U.S. dollars. All figures reflect cash activity and will be incurred in the year they appear; There will be no efforts to adjust cash flow for potential non-cash activity or “accounting revenue/expenses” even though the financials will reserve per year 20% of the original cost of equipment for replacement in the seventh year. Short-term receivables or payables will not be shown as all would be expected to be settled within 3-6 months. Taxes are not considered except on existing payroll/social obligations¹.

We assume that inflation will not affect computer hardware and software: it is for this reason that replacement of computer systems and other credit bureau equipment in the 7th year is the same as in year 1.

There will be three financial scenarios (A,B,C) that set out alternative profitability and break-even points given different pricing structures, sales and growth expectations. The scenarios range from the extremely conservative to optimistic.

IV. ADMINISTRATIVE MATTERS

Mr. Jim Aziz was in Ukraine from January 8th to February 2nd, 2005.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Credit Bureau

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none">• Coordinate Disparate Groups and Consolidate Interests	<ul style="list-style-type: none">• DESPITE THE INITIAL TENSION WITH THE WORLD BANK IN CONNECTION WITH THE ESTABLISHMENT AND DEVELOPMENT OF A CREDIT BUREAU, ATCI AND AUB SIGNED A PROTOCOL. DURING THE QUARTER, COOPERATION IMPROVED DESPITE SOME INTERNAL TENSION AT AUB AND SOME TENSION BETWEEN AUB AND ATCI.
<ul style="list-style-type: none">• Develop and establish linkages with primary international credit bureau operators	<ul style="list-style-type: none">• INTERNATIONAL CREDIT BUREAU OPERATORS CONFIRM INTEREST IN UKRAINE. DISCUSSIONS CONTINUE WITH EXPERIAN (UK), CREDITINFO (ICELAND), CRIF (ITALY/CZECH REPUBLIC) AND D&B (SINGAPORE). FURTHER DISCUSSIONS AND CONCRETIZE
<ul style="list-style-type: none">• Secure buy-in of local data providers and users	<ul style="list-style-type: none">• MARKET REMAINS SPLIT – IT IS INCREASINGLY LIKELY THAT THERE WILL BE AT LEAST TWO CREDIT BUREAUS ESTABLISHED.

¹ Taxes must be assessed independently. The investor must be aware that the tax regime in Ukraine is subject to change as in any sovereign jurisdiction.

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<ul style="list-style-type: none">• Sponsor visits to potential foreign CB partners	<ul style="list-style-type: none">• ATCI AGREES TO SPONSOR PART OF THE JUNE 9TH CREDIT BUREAU CONFERENCE.
<ul style="list-style-type: none">• Determine and review CIC development strategy with government and counterparts	<ul style="list-style-type: none">• IN DISCUSSIONS WITH AUB AND CIC REPRESENTATIVES TO DEVELOP STRATEGY FOR THE DEVELOPMENT OF CB. INCLUDES THE PREPARATION OF A BUSINESS PLAN, MARKETING, LEGAL REVIEW ETC. AS REFLECTED IN THE PROTOCOL WITH AUB (ATTACHED).
<ul style="list-style-type: none">• Market best approach for structuring, establishing and operating CIC	<ul style="list-style-type: none">• PUBLIC RELATIONS STRATEGY CONTINUES, AND INCLUDES VISITS TO INDIVIDUAL MARKET PARTICIPANTS AND WILL INCLUDE ARTICLES IN THE PRESS.
<ul style="list-style-type: none">• Analyse and Coordinate passage of law	<ul style="list-style-type: none">• REVIEWED DRAFTS OF THE CREDIT BUREAU LAW. "FINAL" DRAFT OF CREDIT BUREAU LAW COMPLETED. MEETINGS WITH MEMBERS OF PARLIAMENT AND WORKING GROUP TOOK PLACE.
<ul style="list-style-type: none">• Define Business and Operations Plan	<ul style="list-style-type: none">• IN PREPARATION
<ul style="list-style-type: none">• Outline Package of Technical Requirements	<ul style="list-style-type: none">• TECHNICAL CONSULTANT ARRIVES IN 1ST QUARTER 2005, AND BEGAN INDEPTH TECHNICAL ANALYSIS OF MARKET.
<ul style="list-style-type: none">• Discussions with Government Data Providers	<ul style="list-style-type: none">• IN PROGRESS
<ul style="list-style-type: none">• Secure Buy-in of Foreign Investors and Banks	<ul style="list-style-type: none">• INTERNATIONAL CREDIT BUREAU OPERATORS CONFIRM INTEREST IN UKRAINE
<ul style="list-style-type: none">• Develop and Deliver Package of Training Programs (banks, leasing, credit unions)	<ul style="list-style-type: none">• FUTURE ACTIVITY BUT AGREE TO PROVIDE FUNDING FOR THE JUNE 9TH CREDIT BUREAU CONFERENCE IN KIEV.

LIST OF ATTACHMENTS

1. Draft Credit Bureau Law
2. Write-up for insurance products and industry
3. Call report of meeting with Credit Unions Association.
4. Report to Chairman of International Mortgage Program: Mr. Yuriy Blaschuk.

E. GENDER

I. COMPONENT DESCRIPTION

Programs related to gender have political and cultural implications that should be considered in any approach. ATCI is seeking opportunities for increased income and empowerment for both women and men.

The project plans to undertake several activities in the area of gender analysis. ATCI staff see the importance of carrying out gender sensitivity training for the staff, in order to have a solid basis for the monitoring work.

With respect to monitoring participation in training programs and events by gender, the following activities will be undertaken to the extent feasible and possible.

- Examine the program to ascertain whether if there are any provisions that could differentially discourage persons of one sex or another from participating;
- Inquire about how program outreach is conducted to understand whether if these procedures may be differentially affecting participation by gender;
- Examine the actual patterns of participation by gender in selected programs, to the extent permitted by the data;
- Where differential participation by gender is identified, try to understand its causes and make appropriate changes.
- With respect to the representation of women in higher positions in government agencies, the Pragma project will work to balance the composition by gender of groups being trained by the project.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

Pragma is planning to partner with local organizations run by women or consisting mostly of women. Two good examples are the Association of Ukrainian Banks and the Commercial Law Center. Agreements between these organizations are in the preparation phases and are expected to be completed in January 2005.

III. EXECUTIVE SUMMARY

All ATCI tasks present opportunities to identify and address gender bias, and to actively promote gender equality in Ukraine's financial sector. For example, ATCI is working closely with the Association of Ukrainian Banks, the Commercial Law Center and other organizations which understand the importance of gender sensitivity with respect to product and services development. These issues have not only been discussed but plans are underway to draft material and articles which point out important opportunities in this area.

The Project staff of the ATC project has begun to include women with professional and technical skills in finance and law in discussions and in the preparation of materials. These staff members,

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while not limited to working with women, also provide support, and act as role models for women who are participating in the ATC activities.

IV. ADMINISTRATIVE ISSUES

NONE

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Gender

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Partner with Woman – run organizations (CLC & UAB)	<ul style="list-style-type: none">• ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY WITH RESPECT TO PRODUCT AND SERVICES DEVELOPMENT.
<ul style="list-style-type: none">• Analyse the possibility of increasing the role of women in the financial sector through training and /or other initiatives	<ul style="list-style-type: none">• THE PROJECT STAFF OF THE ATCI PROJECT HAS BEGUN TO INCLUDE WOMEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW IN DISCUSSIONS AND IN THE PREPARATION OF MATERIALS.
<ul style="list-style-type: none">• Gender and cultural sensitization training	<ul style="list-style-type: none">• UNDER DISCUSSION

LIST OF ATTACHMENTS

NONE

ATTACHMENT 1

Grigori Marchenko

Grigori Marchenko, former Chairman of the National Bank of Kazakhstan (NBK), graduated from Moscow State University, completed graduate studies at MGIMO in 1984 and subsequently attended Georgetown University.

He began work at NBK in 1993 as a member of a small team of reformers headed by then NBK Chairman Daulet Sembaev. This team introduced Kazakhstan's national currency (the Tenge) in November 1993 and then set about drafting the legislation and prudential norms that would bring Kazakhstan's banking sector into compliance with international standards of practice—BIS-guided capital and Tier II capital requirements, risk-weighted reserves, and International Accounting Standards bookkeeping. This team also drafted the legislation for commercial bank secrecy, FDIC-like bank deposit insurance and, in 1997, the private pension fund system creating conditions for domestic investment capacity. The NBK also sponsored enabling legislation for Kazakhstan's securities markets. Mr. Marchenko served as chairman of the National Securities Commission and, in 1999, was appointed by President Nazarbaev as chairman of the NBK.

As chairman, Mr. Marchenko created the Kazakhstan Mortgage Company and the Kazakhstan Mortgage Guarantee Fund, ownership of which has subsequently passed from NBK to Ministry of Finance; he also was directly involved in the creation of the Kazakhstan Actuarial Society and the Actuarial Center. Under his stewardship, NBK also founded the Kazakhstan Insurance Indemnity Fund and, at the beginning of 2004, consolidated the regulation of pension, insurance, securities, and banking with the establishment of the Agency for Financial Regulation. Mr. Marchenko resigned as chairman of NBK in January 2004 to serve as First Deputy Prime Minister and then as Special Advisor to the President. In January 2005, he became Chairman of Narodnyi Bank in Almaty.

Because of the success of financial sector reforms in Kazakhstan, Mr. Marchenko is viewed throughout the former Soviet Union as the premier economic reformer. He is widely admired by like-minded citizens of all the post-Soviet countries, whose governments frequently seek his advice on reforming their financial sectors and, especially, on introducing mortgage lending and secondary mortgage markets. He is frequently referred to by many in Kazakhstan as the "Father of Pension Reform". In 2003, *Euromoney*, the journal of international finance, named him their "Central Banker of the Year".

Mr. Marchenko has agreed to meet with high level governmental officials on behalf of USAID/Pragma. The purpose of his visit to counsel on the implementation of pension reforms, the successful consolidation of financial supervision, and to stress the importance of a single coordinator of financial sector reform with which ATCI can interact in implementing its various planned initiatives in Ukraine.

The Pragma Corporation and USAID have enjoyed a long association with Mr. Marchenko, during which many of the policies and programs that have helped make Kazakhstan's financial sector reforms successful, were implemented.

ATTACHMENT 2

Mr.Marchenko's visit schedule

Tuesday, March 22

10:00-11:00 Mr.Tigipko Sergey Leonidovich/contact person Vinogradov Nikolai Petrovich
TAS -Commerts bank, Kommintern str., 30

11:30-12:15 Mrs.Musina Lyudmila Alexandrovna, Deputy Minister of Economics
Grushevskogo str., 12

12:30-13:30 Mr.Yushko Igor Olegovich, President UNMA; Mr.Volkov Sergei Sergeevich,Director
of UNMA, Shelkovichnaya str.42-44, 14th floor, office InterPipe

13:45-14:45 Lunch

Mr. David Lucterhand, Chief of Party the Pragma Corporation/ATCI/USAID

15:00-16:00 Mr.Suslov Viktor Ivanovich, Head of Committee State Commission
For Regulation of Financial Services Markets in Ukraine
Grinchenko str., 3

17:00-18:00 Mr.Suganyaka Nikolai Vasilievich , Chairman of the Board State Savings Bank
Gospitalnaya str., 12G

19:00-21:00 Dinner

Mr.Kostytskiy Vasiliy Vasilievich, Head of State Mortgage Institution
Mr. David Lucterhand, Chief of Party the Pragma Corporation/ATCI/USAID
Vladymirskaya str., 12, restaurant "Da Vinci Fish Club"

Wednesday, March 23

10:00-11:00 Mr.Bybich Valeriy Georgievich, President UFG
Mr. David Lucterhand, Chief of Party the Pragma Corporation/ATCI/USAID
Grushevskogo str.34

11:30-12:30 Mr.Shapavalov Anatoliy Vasilievich, Deputy Head of the National Bank of Ukraine
Institutskaya str., 9

13:00-14:00 Mr. John E. Herbst, Ambassador, U.S. Embassy
Mr.Gary Linden, Director, Office of Economic Growth /USAID
Mr. Rick Gurley, Financial Sector Advisor, Office of Economic Growth USAID
Yuriya Kotsyubinskogo str., 10

14:10-15:00 Lunch

Mr.Gary Linden, Director, Office of Economic Growth /USAID
Mr. Rick Gurley, Financial Sector Advisor, Office of Economic Growth USAID
Mr. David Lucterhand, Chief of Party the Pragma Corporation/ATCI/USAID

15:00 Mr.Pynzenyk Victor Mikhailovich, Minister of Finance
Tentative Mezhygirska str., 11

16:45 from Premier Palace Hotel to the airport Borispol

19:00 Departure (flight 202)

ATTACHMENT 3

Protocol on Cooperation and Coordination

March 30, 2005

Kyiv, Ukraine

This Protocol of Cooperation and Coordination (hereafter "Protocol") is entered into by and between the **Association of Ukrainian Cities** (hereinafter "the Association") represented by Myroslav Pittsyk, Vice President and Acting Managing Director, and

The **Access to Credit Initiative**, (hereinafter "ATCI") implemented by The Pragma Corporation, USAID/Ukraine represented by the Chief of Party, David C. M. Lucterhand.

Whereas, the Association and ATCI (hereinafter the "Parties") are guided by their mutual interest in the creation of favorable conditions for financing public purpose capital investments with long-term municipal bonds of municipalities and communal service enterprises;

Whereas, the Parties believe that their mutual interests can be more efficiently and effectively achieved through a combination of their respective resources;

Whereas, the Association supports the activities of specialized Sections with an interest in municipal bond finance, such as the Section of Financiers and the Section on Housing and Communal Economy;

Whereas, local self-government and fiscal decentralization will be promoted by improving cities' access to long-term capital financing;

Whereas, the Parties agree that, through technical assistance and information exchange, their mutual goals are to demonstrate sound long-term municipal bond issuance for public purpose capital investment;

Whereas, the Parties agree that the purpose of their cooperation is to increase the supply and reduce the cost of bond financing for municipal infrastructure investments;

Whereas, the Parties recognize the importance of bonds as a vehicle for municipal access to the capital markets, and intend to abide by the laws and regulations of Ukraine when carrying out this protocol.

Whereas, the Parties agree that it is in both of their interests to enter into this Protocol; and

Now therefore, the Parties hereby conclude this Protocol with respect to the following:

ARTICLE 1

The Parties will collaborate to:

1. identify legal and regulatory reforms necessary to increase the ability of municipal governments and communal service enterprises to place and service long-term municipal bonds for infrastructure and public-purpose capital investment;

2. promote adequate, stable and predictable equalization grant funding by the Government of Ukraine for cities;
3. promote laws, regulations, and practices to ensure that financial obligations incurred by city radas are binding upon succeeding radas;
4. inform and persuade policymakers about the need for legal and regulatory reforms to support bond issuance;
5. develop prudent standards by which the Government of Ukraine can monitor municipal bond issuance, without interfering unnecessarily with market forces;
6. promote full-cost recovery tariffs for communal service enterprises;
7. improve the accounting transparency of municipalities and communal service enterprises so that bond investors can readily understand their financial position;
8. promote sound financial management practices, including capital budgeting, by municipalities and communal service enterprises;
9. identify capital investments that will create substantial cost savings for municipalities and communal service enterprises;
10. identify creditworthy municipalities and communal service enterprises that could benefit from technical assistance to prepare bond issues;
11. investigate and develop financial structures, special deposit accounts, legally authorized collateral, and guarantees to strengthen the creditworthiness of municipalities and communal service enterprises;
12. promote the development of a rigorous, competitive and independent credit rating industry;
13. sponsor discussion sessions for city and national officials, investors, and other market participants on special issues in municipal bond finance;
14. conduct training sessions on management practices, capital investment planning, accounting standards, citizen participation, and tariff policies that support the issuance of creditworthy bonds.

ARTICLE 2

Neither Party shall use the name, logotype or other attributes of the other or act on its behalf. The Parties shall have the right to distribute jointly prepared materials, with obligatory mentioning of the other Party's authorship. The Parties also agree that neither the ATCI, nor the Association, shall be responsible for the operation of the other Party.

Material and financial provision of joint actions to implement the objectives stated in Article 1 shall be defined by separate agreements.

ARTICLE 3

To promote successful implementation of this Protocol, a Joint Coordination Council of the ATCI shall be established, with five specialists from the Association and three from ATCI;

The Protocol shall be effective from the date of its signing and is valid for an indefinite length of time;

The Protocol shall be terminated by either party at will. Changes and amendments to the Protocol shall not be effective unless incorporated in writing signed by both of the Parties.

Each Party agrees to hold harmless the other Party against any claims or liability that may arise from the performance of the Protocol. This Protocol neither creates nor restricts rights to third parties. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent.

The Protocol is made in two copies and in two languages - English and Ukrainian - one for each Party, both being equally authentic.

ARTICLE 5

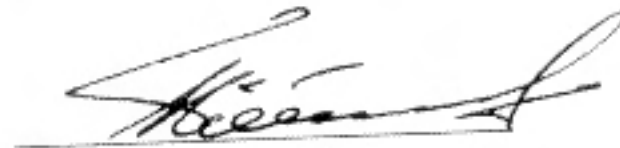
This Protocol is signed:

On behalf of The Pragma Corporation - Access
to Credit Initiative, USAID/Ukraine by



David C.M. Lucterhand,
Chief of Party

On behalf of the Association of Ukrainian
Cities by



Myroslav Pittsyk
Vice President and
Acting Managing Director

Протокол про співробітництво та координацію дій

30 березня 2005 р.

м. Київ, Україна

Цей Протокол про співробітництво та координацію дій (надалі „Протокол”) укладається між **Асоціацією міст України та громад** (надалі „Асоціація”) в особі Мирослава Пітцика, Віце-президента з виконавчої роботи, та

Проектом **Ініціатива сприяння кредитуванню** (надалі „ІСК”), що здійснюється корпорацією „Прагма”, USAID/Київ, в особі керівника проекту Девіда Ч.М. Лактерхенда.

Зважаючи на те, що Асоціація та ІСК (надалі „Сторони”) керуються взаємними інтересами щодо створення сприятливих умов для фінансування капітального інвестування у громадських цілях довгостроковими муніципальними облігаціями міст та підприємств комунального господарства;

Зважаючи на те, що на думку Сторін їх взаємні інтереси можуть бути більш ефективно та раціонально забезпечені шляхом поєднання їх відповідних ресурсів;

Зважаючи на те, що Асоціація підтримує діяльність спеціалізованих секцій з муніципального облігаційного фінансування, таких як Секція фінансистів та Секція з питань житлово-комунального господарства;

Зважаючи на те, що місцеве самоврядування та фінансова децентралізація будуть розвиватись за рахунок збільшення доступу міст до довгострокового капітального фінансування;

Зважаючи на те, що Сторони домовились про те, що через технічну допомогу та обмін інформацією їх взаємною метою буде продемонструвати хороший випуск муніципальних облігацій для капітального інвестування у громадських цілях;

Зважаючи на те, що Сторони домовились про те, що метою їх співробітництва є збільшення пропозиції та зменшення вартості капіталу у формі довгострокових облігацій для міської та комунальної інфраструктури;

Зважаючи на те, що Сторони визнають важливість облігацій як інструменту виходу муніципалітетів на ринок капіталу, та діятимуть згідно законів та нормативних актів України під час виконання даного Протоколу; та

Зважаючи на те, що Сторони погоджуються, що укладення цього Протоколу є у їх спільних інтересах;

Сторони укладають цей Протокол про таке:

СТАТТЯ 1

Сторони співпрацюватимуть для виконання таких цілей:

1. визначення змін у правовому, регуляторному та управлінському полі, що покращать здатність муніципальних урядів та підприємств комунального господарства розміщувати та обслуговувати довгострокові муніципальні облігації для інфраструктури та капітальних інвестицій у громадських цілях;
2. сприяння адекватності, стабільності та передбачуваності дотацій вирівнювання, що надаються урядом України містам;
3. сприяння запровадженню законів, положень та практики, що забезпечать обов'язковість виконання радами-наступниками фінансових зобов'язань міських рад;
4. інформування та переконування політиків у необхідності правової та регуляторної реформи для підтримки випуску облігацій;
5. розробка пруденційних стандартів, за якими уряд України зможе стежити за муніципальними випусками облігацій без зайвого втручання у ринок;
6. сприяння встановленню тарифів повного покриття вартості для підприємств комунального господарства;
7. збільшення прозорості бухгалтерського обліку муніципалітетів та підприємств комунального господарства, щоб інвесторам облігацій було легко зрозуміти їх фінансовий стан;
8. сприяння розвитку належної практики фінансового менеджменту, включаючи планування капітальних бюджетів муніципалітетами та підприємствами комунального господарства;
9. визначення капітальних інвестицій, які забезпечать значне зниження собівартості для муніципалітетів та підприємств комунального господарства;
10. визначення кредитоспроможних муніципалітетів та підприємств комунального господарства, яким буде корисна технічна допомога при підготовці випусків облігацій;
11. дослідження і розробка фінансових структур, спеціальних банківських рахунків, дозволеної законом застави і гарантій для підсилення кредитоздатності муніципалітетів та підприємств комунального господарства;
12. сприяння розвитку ретельної, конкурентноздатної і незалежної галузі кредитного рейтингування;
13. спонсорування зустрічей-обговорень для керівників міст та держави та інших учасників ринку з особливих питань муніципального фінансування за допомогою облігацій;
14. проведення навчання з практики управління, планування капітальних інвестицій, стандартів бухгалтерського обліку, участі громадян та тарифної політики на підтримку випуску кредитоздатних облігацій.

СТАТТЯ 2

Жодна із Сторін не має права використовувати ім'я, логотип чи інші атрибути іншої Сторони, чи діяти від її імені. Сторони мають право розповсюджувати спільно підготовлені матеріали, при цьому обов'язково зазначаючи авторство іншої Сторони. Сторони також погоджуються з тим, що ні ІСК, ні Асоціація не несе відповідальності за діяльність іншої Сторони.

Матеріальне та фінансове забезпечення спільних дій по реалізації цілей, викладених у Статті 1, визначається окремими угодами.

СТАТТЯ 3

Для успішної реалізації даного протоколу створюється Спільна Координаційна Рада ІСК, до складу якої входитимуть п'ять фахівців з асоціації та три фахівці ІСК;

Цей Протокол набуває чинності з дати його підписання і діє невизначений період часу;

Дія Протоколу завершується за бажанням будь-якої із Сторін. Зміни та доповнення до Протоколу вважаються дійсними лише якщо вони внесені письмово і підписані обома Сторонами.

Сторони погоджуються з тим, що жодна із Сторін не несе відповідальності перед іншою Стороною у зв'язку із претензіями чи зобов'язаннями, які можуть виникнути у неї під час виконання Протоколу. Даний Протокол не утворює і не обмежує прав по відношенню до третіх сторін. Будь-які суперечності, що можуть виникнути в ході виконання даного Протоколу, вирішуються за взаємною згодою Сторін.

Цей Протокол укладений у двох оригінальних примірниках англійською і українською мовою, що є однаково аутентичними, – по одному для кожної Сторони.

Цей Протокол підписали:

Від імені Корпорації „Прагма” –
Проект „Ініціатива сприяння
Кредитуванню”, USAID/Україна



Девід Ч.М.Лактерхенд
Керівник проекту

Від імені Асоціації міст України
та громад



Мирослав Пітцик
Віце-президент з виконавчої роботи

ATTACHMENT 4

Protocol on Cooperation

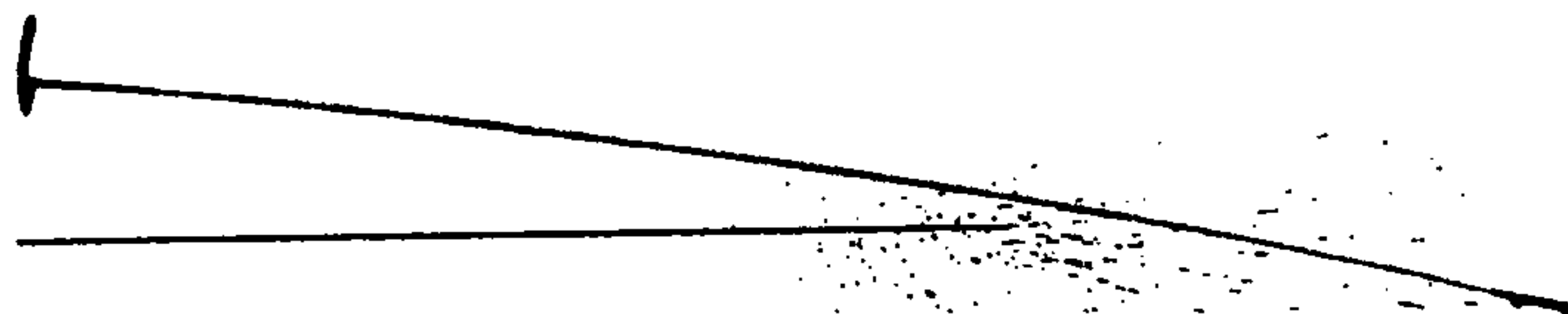
This Protocol on Cooperation (hereinafter referred to as “Protocol”) is entered into by and between the Ukrainian National Mortgage Association (hereinafter referred to as “UNMA”) represented by the Executive Director, Sergiy S. Volkov, and the Access to Credit Initiative (hereinafter referred to as – “ATCI”) implemented by the Pragma Corporation (hereinafter referred to as – “Pragma”), USAID/Ukraine represented by the Chief of Party, David C. M. Lucterhand (jointly referred to as “Parties”).

Acknowledging their mutual interest to establish a favorable regulatory framework and an appropriate market infrastructure for both primary mortgage lending and secondary mortgage market in Ukraine; consistent with best international practices in these areas; and aiming to achieve constant growth in mortgage lending, the Parties have agreed on the following:

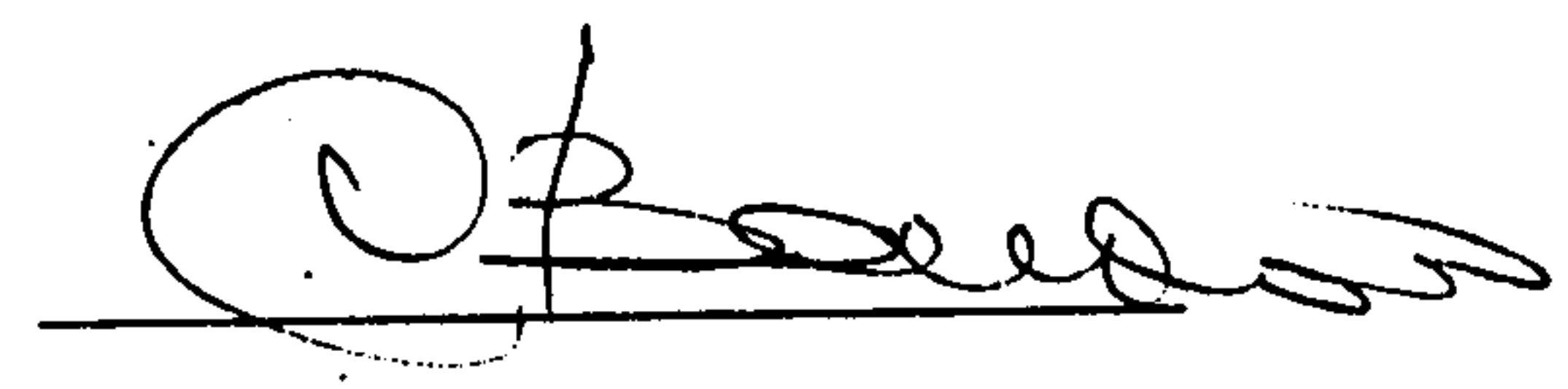
1. The Parties shall cooperate in using their respective human and material resources to facilitate the establishment in Ukraine of an environment favorable for development of a modern mortgage system.
2. The cooperation between the Parties shall comprise, but not being limited to, the following areas:
 - To provide expertise in connection with the existing legal framework in the sphere of secured transactions, mortgage, mortgage-based lending, mortgage-backed securities as well as regarding any other legislation that might affect operation of mortgage system in Ukraine; developing on this basis proposals and recommendations, drafting laws and regulations which aim to improve the above mentioned legal framework;
 - To provide research and overviews of the Ukrainian mortgage lending and real estate market, insurance and appraisal practices and other market segments related to mortgage system; developing on this basis proposals and recommendations to the respective government and public agencies in order to improve existing situation;
 - To assist in adoption of standardized mortgage lending underwriting practices, mortgage loan servicing documentation and in creation of mechanisms to evaluate the solvency of debtors;
 - To identify participants (individuals and personnel from financial institutions) for the Certified Mortgage Lender Program and recipients of on-site technical assistance;
 - To assist in establishment and development of a second tier mortgage refinance institution and mortgage guarantee facility, if feasible and required;

- To assist in development of instruments and infrastructure pertinent to operation of secondary mortgage market, including assistance, when appropriate, in structuring and marketing a pilot mortgage-backed security.
3. In order to implement this Protocol, the Parties shall use all means available to them and not contradictory to their respective founding documents or terms and scope of ATCI. In particular, the Parties shall regularly conduct mutual consultations, exchange information, notify each other of their respective activities, hold joint seminars, conferences, round table etc.
 4. If and when required, the Parties shall enter into a separate agreement in order to implement a particular objective, which lies within the scope of this Protocol between the Parties. In addition, within the context of this Protocol, Pragma shall endeavor to contract experts to advise and/or work with UNMA, if such activities are consistent with the terms of ATCI and required to implement t ATCI.
 5. Neither Party shall use the name, logotype or other attributes of the other Party or act on its behalf or be responsible for the actions of the other Party, unless stipulated in a separate agreement between them. The Parties shall have the right to distribute jointly prepared materials, with compulsory reference to the other Party's authorship.
 6. Each Party agrees to hold harmless the other Party against any claims or liability that may arise from the performance of the Protocol. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent. This Protocol neither creates nor restricts rights to third parties.
 7. This Protocol shall not materially affect the Parties, restrict them in their respective rights or create any liabilities in front of the third persons. This Protocol is signed and executed between the Parties in two original copies in English in the city of Kyiv, Ukraine on December 30, 2004 and shall be deemed to be effective of this date until one of the Parties notify the other of it's intention to terminate cooperation based on this Protocol.

For and on behalf of ATCI/Pragma:


David C.M. Lucterhand

For and on behalf of UNMA:


Sergiy S. Volkov

ATTACHMENT 5

Protocol on Cooperation and Coordination

Kyiv, Ukraine

March 30, 2005

This Protocol of Cooperation and Coordination (hereafter "Protocol") is entered into by and between the **State Committee of Ukraine on Housing and Communal Economy** (hereinafter "State Committee") represented by Oleksiy Kucherenko, Chairman, and

The **Access to Credit Initiative**, (hereinafter "ATCI") implemented by The Pragma Corporation, USAID/Kiev, and represented by the Chief of Party, David C. M. Lucterhand.

Whereas, the State Committee and ATCI (hereinafter the "Parties") are guided by their mutual interest in the creation of favorable conditions for financing public purpose capital investments of cities and communal service enterprises with long-term municipal bonds;

Whereas, the Parties believe that their mutual interests can be more efficiently and effectively achieved through a combination of their respective resources;

Whereas, the Parties agree that, through technical assistance and information exchange, their mutual goals are to demonstrate sound municipal bond issuance;

Whereas, the Parties agree that the purpose of their cooperation is to increase the supply and the reduce cost of long-term bond capital for public infrastructure;

Whereas, the Parties are aware that the Government of Ukraine has enacted legislation to ensure the financial viability of communal service enterprises;

Whereas, the Parties recognize the importance of bonds as a tool for financing urgently needed public infrastructure, and intend to abide by the laws and regulations of Ukraine when carrying out this protocol.

Whereas, the Parties agree that it is in both of their interests to enter into this Protocol;

Now therefore, the Parties hereby conclude this Protocol with respect to the following:

ARTICLE 1

The Parties will collaborate to:

1. identify legal, regulatory, and management reforms that will improve the ability of municipal governments and communal service enterprises to place and service long-term municipal bonds for infrastructure investment;
2. improve the accounting transparency of communal service enterprises so that investors can readily understand their financial position;
3. identify well-managed, financially strong communal service enterprises and municipal governments whose bonds are most likely to be received favorably by investors;

4. provide technical assistance to municipalities and/or communal service enterprises to help them issue long-term bonds for infrastructure;
5. evaluate the financial position of individual communal service enterprises, with reference to the laws, regulations, and technical standards that govern them;
6. identify infrastructure and capital investments that will create substantial cost savings for communal service enterprises, thus improving their financial position;
7. identify infrastructure investments that will generate support among citizens and enterprises paying for housing and communal services;
8. evaluate the technical merits of capital investment proposals;
9. investigate and develop financial structures, special bank accounts, legally authorized collateral, and guarantees to strengthen the creditworthiness of bonds for communal service enterprise infrastructure;
10. promote the development of a rigorous, competitive and independent credit rating industry with expertise in the economic and legal environment of communal service enterprises;
11. disseminate information and conduct training sessions about the business practices, capital investment plans, accounting standards, citizen participation, and tariff policies that improve the creditworthiness of communal service enterprises;
12. develop domestic institutional investor capacity; and
13. have bond issues publicly listed and traded at the PFTS Stock Exchange.

ARTICLE 2

Neither Party shall use the name, logotype or other attributes of the other or act on its behalf. The Parties shall have the right to distribute jointly prepared materials, with obligatory mentioning of the other Party's authorship. The Parties also agree that neither the ATCI, nor the State Committee, shall be responsible for the operation of the other Party.

By signing this Protocol, the Parties recognize that the activities envisaged in this Protocol, at every stage of cooperation, shall be performed exclusively at each Party's own expense and that there shall be no grounds for compensation or reimbursement of one Party's costs by the other.

ARTICLE 3

The Protocol shall be effective from the date of its signing and is valid for an indefinite length of time;

The Protocol shall be terminated by either party at will. Changes and amendments to the Protocol shall not be effective unless incorporated in writing signed by both of the Parties.

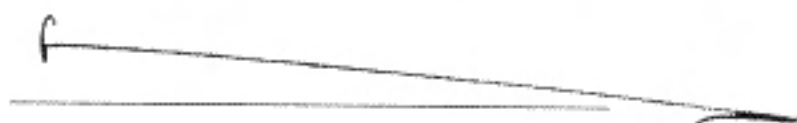
Each Party agrees to hold harmless the other Party against any claims or liability that may arise

from the performance of the Protocol. This Protocol neither creates nor restricts rights to third parties. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent.

The Protocol is made in two copies and in two languages - English and Ukrainian - one for each Party, both being equally authentic.

This Protocol is signed:

**On behalf of The Pragma Corporation -
Access to Credit Initiative , USAID/Ukraine by**

A long, horizontal, slightly wavy signature line.

David C.M. Lucterhand,
Chief of Party

**On behalf of the State Committee of
Ukraine on Housing and Communal
Services by**

A complex, stylized signature with multiple loops and a long horizontal stroke.

Oleksiy Kucherenko,
Chairman

Протокол про співробітництво та координацію дій

м. Київ, Україна

30 березня 2005 р.

Цей Протокол про співробітництво та координацію дій (надалі „Протокол”) укладається між Державним комітетом України з питань житлово-комунального господарства (надалі „Держкомітет”) в особі Олексія Кучеренко, Голови Комітету, та

Проектом Ініціатива сприяння кредитуванню (надалі „ІСК”), що здійснюється корпорацією „Прагма”, USAID/Київ, в особі керівника проекту Девіда Ч.М. Лактерхенда.

Зважаючи на те, що Держкомітет та ІСК (надалі „Сторони”) керуються взаємними інтересами щодо створення сприятливих умов для забезпечення капітального інвестування комунальних потреб міст та підприємств комунального господарства за допомогою випуску довгострокових муніципальних облігацій;

Зважаючи на те, що на думку Сторін їх взаємні інтереси можуть бути більш ефективно та раціонально забезпечені шляхом поєднання їх відповідних ресурсів;

Зважаючи на те, що Сторони домовились про те, що через технічну допомогу та обмін інформацією їх взаємною метою буде продемонструвати якісний випуск муніципальних облігацій;

Зважаючи на те, що Сторони домовились про те, що метою їх співробітництва є збільшення пропозиції та зменшення вартості капіталу у формі довгострокових облігацій для міської та комунальної інфраструктури;

Зважаючи на те, що Сторонам відомо про те, що урядом України введено в дію законодавство, що забезпечує фінансову життєздатність підприємств комунального господарства;

Зважаючи на те, що Сторони визнають важливість облігацій як інструменту фінансування гостро необхідної міської та комунальної інфраструктури, та діятимуть згідно законів та нормативних актів України під час виконання даного Протоколу; та

Зважаючи на те, що Сторони погоджуються, що укладення цього Протоколу є у їх спільних інтересах;

Сторони укладають цей Протокол про таке:

Стаття 1

Сторони співпрацюватимуть для досягнення таких цілей:

1. визначення змін у правовому, регуляторному та управлінському полі, що покращать здатність органи місцевого самоврядування та підприємств комунального господарства розміщувати та обслуговувати довгострокові муніципальні облігації для інвестування в інфраструктуру;
2. збільшення прозорості бухгалтерського обліку підприємств комунального господарства, з метою щоб інвесторам було легко зрозуміти їх фінансовий стан;
3. визначення підприємств комунального господарства та органів місцевого самоврядування з належним управлінням та сильних фінансово, чії облігації найбільш вірогідно будуть позитивно сприйняті інвесторами;

4. надання технічної допомоги муніципалітетам і/чи комунальним підприємствам у випуску довгострокових облігацій для розвитку інфраструктури;
5. оцінка фінансового стану окремих комунальних підприємств на основі законів, нормативно-правових актів і технічних стандартів, які регулюють їх діяльність;
6. визначення інфраструктури і капітальних інвестицій, які забезпечать значне зниження собівартості для комунальних підприємств;
7. визначення інвестицій в інфраструктуру, завдяки яким буде забезпечена підтримка з боку громадян і підприємств, що сплачують за житлово-комунальні послуги;
8. оцінка технічних достоїнств пропозицій щодо капітальних інвестицій;
9. дослідження і розробка фінансових структур, спеціальних банківських рахунків, дозволеної законом застави і гарантій для підсилення кредитоздатності облігацій для інфраструктури комунальних підприємств;
10. сприяння розвитку ретельної, конкурентноздатної і незалежної галузі кредитного рейтингування, що має належний економічний і юридичний досвід у сфері діяльності комунальних підприємств;
11. розповсюдження інформації і проведення навчальних заходів щодо бізнес-практики, планів капітального інвестування, стандартів бухгалтерського обліку, участі громадян та тарифної політики, які підвищують рівень кредитоздатності комунальних підприємств;
12. розвиток потенціалу внутрішніх інституційних інвесторів;
13. розміщення облігацій в лістингу і торгівля ними у Позабіржовій фондовій торгово-інформаційній системі (ПФТС)

Стаття 2

Жодна із Сторін не має права використовувати ім'я, логотип чи інші атрибути іншої Сторони, чи діяти від її імені. Сторони мають право розповсюджувати спільно підготовлені матеріали, при цьому обов'язково зазначаючи авторство іншої Сторони. Сторони також погоджуються в тому, що ні ІСК, ні Державний комітет не несе відповідальність за діяльність іншої Сторони.

Підписанням цього Протоколу Сторони визнають, що діяльність, передбачена цим Протоколом, на кожному етапі співробітництва буде здійснюватися кожною із Сторін виключно за власний рахунок, і що не існує жодних підстав для компенсації чи відшкодування витрат однією Стороною іншій Стороні.

Стаття 3

Цей Протокол набуває чинності з дати його підписання і діє невизначений період часу;

Дія Протоколу завершується за бажанням будь-якої із Сторін. Зміни та доповнення до Протоколу вважаються дійсними лише якщо вони внесені письмово і підписані обома Сторонами.

Сторони погоджуються з тим, що жодна із Сторін не несе відповідальності перед іншою Стороною у зв'язку із претензіями чи зобов'язаннями, які можуть виникнути у неї під час виконання Протоколу. Даний Протокол не утворює і не обмежує прав по відношенню до третіх сторін. Будь-які суперечності, що можуть виникнути в ході виконання даного Протоколу, вирішуються за взаємною згодою Сторін.

Цей Протокол підписаний та укладений Сторонами у двох оригінальних примірниках англійською і українською мовою, що є аутентичними, – по одному для кожної Сторони.

Цей Протокол підписали:

Від імені Корпорації „Прагма” –
Проект „Ініціатива сприяння
Кредитуванню”, USAID/Україна

A long, thin, horizontal signature in dark ink, starting with a small vertical stroke on the left and ending with a small hook on the right.

Девід Лактерхенд

Керівник проекту

Від імені Державного комітету України
з питань житлово-комунального
господарства

A complex, stylized signature in dark ink, featuring several loops and a prominent horizontal stroke across the middle.

Олексій Кучеренко

Голова Комітету

ATTACHMENT 6

Protocol on Cooperation Between the Association of Ukrainian Banks and The Pragma Corporation

Kyiv, Ukraine

January 11, 2005

This Protocol of Cooperation and Coordination of activities (hereafter "Protocol") is entered into by and between the Association of Ukrainian Banks (hereinafter "Association") represented by Oleksandr Sugoniako President of the Association, and

The Access to Credit Initiative, (hereinafter "ATCI") implemented by USAID/The Pragma Corporation, Ukraine represented by the Acting Chief of Party, Javier Piedra.

Whereas, the Association and ATCI (hereinafter the "Parties") are guided by mutual interest in the creation of favorable conditions for the development of a Ukrainian Bureau of Credit Histories that will serve as a primary tool to increase consumer access to financing, improve bank portfolio management, and lead to asset diversification and new banking products;

Whereas, the Parties believe that their mutual interests can be more efficiently and effectively achieved through a combination of their respective resources; and

Whereas, the Parties are aware that Ukraine's Credit Bureau law is under consideration by the Verkhovna Rada of Ukraine, and agree that it is in both their interest to enter into this Protocol; and

Whereas, the Parties recognize the essential need for protecting the privacy and confidentiality of information contained in the database of the Ukrainian Bureau of Credit Histories, and intend to abide by the laws and regulations of Ukraine which protect the privacy of personal information.

Now therefore, the Parties hereby conclude this Protocol with respect to the following:

ARTICLE 1

The Parties shall use resources and opportunities available to them to facilitate the establishment and development of a Ukrainian Bureau of Credit Histories in order to increase consumer access to credit, improve bank portfolio management, and strengthen the primary mortgage, auto, retail, and credit card markets. The establishment of a functional Ukrainian Bureau of Credit Histories will contribute to economic development, to the stability of the banking sector and to the growth of small businesses.

In doing so, the Association of Ukrainian Banks continues the cooperation with a) a group of experts engaged by Ukraine (in person of the Ministry of Finance) in the establishment and development of the Ukrainian Bureau of Credit Histories within the framework of the World Bank project "Rural Financing", b) the World Bank within the framework of its project "Rural Financing" subcomponent "Credit Bureau". The Association coordinates the joint work of all parties, which render help and/or are interested in the creation of the Ukrainian Bureau of Credit Histories.

After the establishment of the Ukrainian Bureau of Credit Histories the cooperation between the Parties continues as is specified in Article 2 of this Protocol, and other terms and conditions of this Protocol remain in force. The Association shall facilitate its implementation and reception of the

technical assistance by the Ukrainian Bureau of Credit Histories from USAID/Pragma, Ukraine.

The Parties shall recognize that data-sharing legislation underlies a Ukrainian Bureau of Credit Histories ability to collect, manage and distribute data. In developing a credit bureau, the parties must address a wide range of issues including, but not limited to, the regulatory environment, relations between the credit bureau and data suppliers and users, the technical construction of the database and the development and use of the Ukrainian Bureau of Credit Histories products and services.

In implementing this Protocol, the Parties shall coordinate their efforts towards the creation of an environment favorable for the expansion of credit in Ukraine, development of entrepreneurship and capital markets by way of the operation of an effective and transparent system of information exchange consistent with the laws of Ukraine, and that will lead in the medium term to a more robust banking sector rendering retail services, and to a more robust small business sector.

ARTICLE 2

The Parties have agreed to cooperate in, yet not to restrict their cooperation to, the following areas:

1. Developing a business plan which would incorporate financial, technical, operational, educational, ownership, managerial, and legal aspects of activity of the Ukrainian Bureau of Credit Histories for local and foreign investors and other interested parties. The plan will include (i) potential products and pricing; (ii) technical summary; and (iii) pro forma financial plan projections and analysis.
2. Providing consultative and expert assistance on a regular basis during the Ukrainian Bureau of Credit Histories development period (4-year period) in order to help the Bureau comply with best international standards and practice. Consultancy assistance shall include the development of bureau products, and financing options, the review of scoring methodologies, and the preparation of marketing materials.
3. Assisting the Ukrainian Bureau of Credit Histories in contract negotiations with foreign technical partners on matters of a business, technical and legal nature, including the drafting and reviewing of tender documents for technical consultants, contracts with any subcontractors, data provider contracts, data user contracts, data sharing contracts, confidentiality agreement, company charter, and contracts with government ministries.
4. Designing, facilitating and delivering joint seminars, conferences, round table discussions, forums and other events and actions in order to deepen public awareness of the role of the Ukrainian Bureau of Credit Histories, to encourage data sharing, facilitate data/credit report usage, and other similar activities as envisaged in this Protocol.
5. providing specific training for the Ukrainian Bureau of Credit Histories management and personnel to improve data management, collection and distribution, including the provision of specific seminars to banks and other data providers.
6. Collaborating in the publication of materials for the press, for the financial and non-financial sectors, and for other interested parties, such as government, agricultural organizations and small business, etc.
7. Identifying data suppliers in the non-financial sector including telecommunication companies, utilities, small business organizations, and agricultural cooperatives, etc.
8. Assisting in marketing the importance of the Ukrainian Bureau of Credit Histories

reports and data sharing to regions outside of Kiev.

9. Assisting in an assessment of the Ukrainian Bureau of Credit Histories products and services.
10. Assisting in the development for the Ukrainian Bureau of Credit Histories of uniform methodologies of software product system design, system development, system implementation, and system testing.
11. Assisting in the development of contacts and relationships with leading international credit bureaus and international operators of credit bureaus, including the facilitation of efforts to visit operators in Western and Eastern Europe, the United States or other countries, as appropriate.
12. Assisting in the development of the Ukrainian Bureau of Credit Histories web site.
13. Developing/refining and monitoring the legal and regulatory framework for data sharing to facilitate data exchange.

ARTICLE 3

To implement this Protocol, the Parties have agreed to:

1. Render mutual assistance in gathering material and reviewing existing documentation for the preparation of the Ukrainian Bureau of Credit Histories Business Plan and other related documents.
2. Render mutual assistance in drafting, reviewing, finalizing and presenting – particularly to potential domestic and international investors – the Business Plan.
3. Hold, or assist in holding, joint seminars, conferences, round table discussions, forums and other events and actions.
4. Monitor the progress of the Credit Bureau law in the Verkhovna Rada of Ukraine and facilitate its adoption. Monitor the progress in processing draft documents concerning the Ukrainian Bureau of Credit Histories in the Cabinet of Ministers of Ukraine, Administration of the President of Ukraine, National Bank of Ukraine and other executive power bodies, as well as facilitate their adoption.
5. Take part in developing and preparing draft laws, regulations, and documentation on the issues envisaged in this Protocol when initiated by the Parties.
6. Exchange information obtained by the Parties in the course of fulfilling this Protocol, conduct consultations on new areas and prospects of cooperation, inform each other of events and activities (programs, projects, seminars, task forces, discussions, etc) in respect of the issues envisaged in this Protocol, and invite the other Party's representatives to participate therein.

While carrying out the above mentioned activities the Parties shall whenever needed draw up more detailed plans of work with agreed terms of their implementation.

The Parties shall hold quarterly meetings with the participation of the USAID/The Pragma Corporation and AUB to which they invite the representatives of the World Bank, Ministry of Finance, NBU, experts engaged by Ukraine (in person of the Ministry of Finance) and the Ukrainian Bureau of Credit Histories, established within the

framework of this project, with the aim of highlighting the progress of work and discussing the current issues.

ARTICLE 4

Neither Party shall use the name, logotype or other attributes of the other or act on its behalf. The Parties shall have the right to distribute jointly prepared materials, with obligatory mentioning of the other Party's authorship. The Parties also agree that neither the ATCI, nor the Association shall be responsible for the operation of the other Party.

By signing this Protocol, the Parties recognize that the activities envisaged in this Protocol, at every stage of cooperation, shall be performed exclusively at each Party's own expense and that there shall be no grounds for compensation or reimbursement of one Party's costs by the other.

ARTICLE 5

The Protocol shall be effective from the date of its signing and is valid for an indefinite length of time.

The Protocol shall be terminated by either Party at will. Such a Party shall notify the other Party about it 60 days prior to the termination date. Changes and amendments to the Protocol shall not be effective unless incorporated in writing signed by both of the Parties.

Each Party agrees to hold harmless the other Party against any claims or liability that may arise from the performance of the Protocol. This Protocol neither creates nor restricts rights to third parties. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent.

The Protocol is made in two copies and in two languages - English and Ukrainian - one for each Party, both being equally authentic.

A copy of this Protocol shall be given for information to the Ministry of Finance of Ukraine and the World Bank which together with the Association of Ukrainian Banks carry out joint efforts for the establishment and development of the Ukrainian Bureau of Credit Histories.

ARTICLE 6

This Protocol is signed:

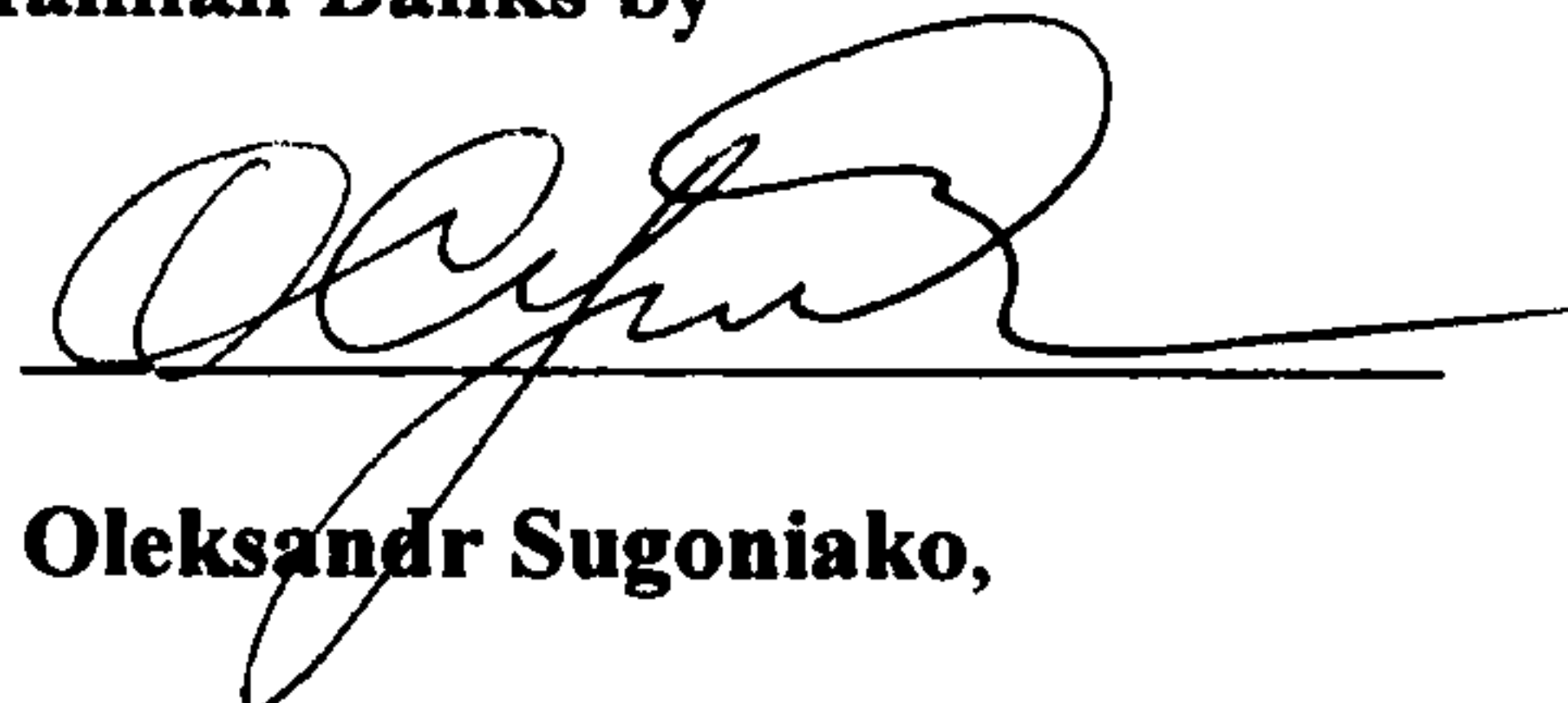
On behalf of USAID/The Pragma
Corporation - Access to Credit Initiative ,
Ukraine by



Javier M. Piedra,

Chief of Party (Acting)

On behalf of the Association of
Ukrainian Banks by



Oleksandr Sugoniako,

President of the Association

ATTACHMENT 7

Protocol on Cooperation

This Protocol on Cooperation (hereinafter referred to as "Protocol") is entered into by and between the State Mortgage Institution (hereinafter referred to as "SMI") represented by the Chairman of the Board, Professor Vasyl Kostytsky, acting on the basis of statute approved by the Act of the Cabinet of Ministers of Ukraine #1715, December 23, 2004; and the Access to Credit Initiative (hereinafter referred to as "ATCI") implemented by the Pragma Corporation (hereinafter referred to as "Pragma"), USAID/Ukraine represented by the Chief of Party, David C. M. Lucterhand, acting on the basis of USAID letter #171/05/EXO dated February 25, 2005 (copy is attached hereto), jointly referred to as "Parties".

Acknowledging their mutual interest to establish a favorable regulatory framework and an appropriate market infrastructure for both primary and secondary mortgage market system in Ukraine; consistent with best international practices in these areas; and with the objective of achieving constant growth in affordable mortgage lending, the Parties have agreed on the following:

1. The Parties shall cooperate in using their respective resources to facilitate the establishment in Ukraine of an environment favorable for development of a modern primary and secondary mortgage market system.

2. The cooperation between the parties shall comprise but not be limited to the following areas:

2.1. Joint analysis of SMI's business plan, its time line, base assumptions for cost and growth; and overall system design that result in recommendations for its implementation;

2.2. ATCI will assist in operational start-up of the SMI by providing industry experts from the CIS and abroad to advise;

2.3. ATCI will provide training for staff members in the aspects of mortgage lending and technical assistance in managing the complexities of a secondary mortgage market institution;

2.4. ATCI will arrange site visits to operating secondary mortgage market facilities in the region and, if required, abroad;

2.5. To cooperate in offering market participants and SMI staff the Certified Mortgage Lender (CML) Program;

2.6. Joint promotion for the adoption of standardized mortgage lending underwriting practices, mortgage loan servicing documentation through agreement with participating financial institutions;

2.7. ATCI will provide the necessary assistance in structuring a mortgage-backed security issue and institutional marketing for successful placement, aimed at the issue of securities, denominated in UAH equivalent;

2.8. Upon agreement between the parties, ATCI will provide and fund expertise in connection with the existing legal framework in the area of secured transactions, mortgage-based lending, mortgage-backed securities as well as any other legislation that might affect operation of the mortgage system in Ukraine; and based on this effort, to develop proposals and recommendations, draft laws and regulations which can improve the above mentioned legal framework;

2.9. To provide research and updates to an overview of the Ukrainian mortgage market infrastructure that includes: lending practices, real estate sales practices, sales price transparency, registration of collateral and related fees, insurance and appraisal practices; collection of mortgage data, and other market segments related to mortgage system; developing on this basis proposals and

recommendations to respective government and public agencies in order to improve existing circumstances;

2.10. The SMI undertakes an obligation to assist in all aspects of implementing this protocol;

2.11. ATCI will assist in establishment and development of a second tier mortgage guarantee facility, if feasible and required;

2.12. To jointly design a system that evaluates the solvency of mortgage borrowers (credit scoring) in conjunction with establishment of the credit bureau.

3. In order to implement this Protocol, the Parties shall use all means available to them and not contradictory to their respective founding documents or terms and scope of ATCI. In particular, the Parties shall regularly conduct mutual consultations, exchange information, notify each other of their respective activities, hold joint seminars, conferences, round table etc.

3.1. If and when required, the Parties shall enter into a separate agreement in order to implement a particular objective, which lies within the scope of this Protocol between the Parties. In addition, within the context of this Protocol, Pragma shall endeavor to contract experts to advise and/or work with the SMI, if such activities are consistent with the terms of ATCI and required to implement t ATCI.

3.2. Neither Party shall use the name, logotype or other attributes of the other Party or act on its behalf or be responsible for the actions of the other Party, unless stipulated in a separate agreement between them. The Parties shall have the right to distribute jointly prepared materials, with compulsory reference to the other Party's authorship.

3.3. Each Party agrees to hold harmless the other Party against any claims from third parties or liability that may arise from the performance of the Protocol. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent.

3.4. This Protocol neither creates nor restricts rights to third parties.

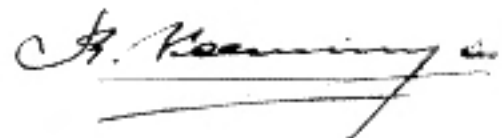
3.5. This Protocol is signed and executed between the Parties in two original copies each in English and Ukrainian in the city of Kyiv, Ukraine on March 30, 2005 and shall be deemed to be effective of this date until one of the Parties notify the other of it's intention to terminate cooperation based on this Protocol.

For and on behalf of ATCI/Pragma:

A handwritten signature in black ink, appearing to read "David C.M. Lucterhand", written over a horizontal line.

David C.M. Lucterhand
Chief of Party

For and on behalf of SMI:

A handwritten signature in black ink, appearing to read "Vasyl V. Kostytsky", written over a horizontal line.

Vasyl V. Kostytsky
Chairman of the Board

MUNICIPAL FINANCE ATTACHMENTS

THE PRAGMA CORPORATION
Access To Credit Initiative
USAID/Ukraine

Olympic Business Center
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03150, Kyiv, Ukraine

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Pragma/USAID Access to Credit Initiative

Municipal Bond Program

Overview

The municipal bond program of the five-year Access to Credit Initiative will help Ukrainian municipalities and communal service enterprises tap capital markets to meet urgent infrastructure needs. Bonds open access to a broader range of investors (lenders). Increased competition for debt by investors can reduce financing costs and extend duration. Access to Credit will promote Ukraine's municipal bond market development continuously from October 2004 through September 2009.

Pilot bond issues that disclose and resolve legal obstacles will drive the municipal bond program. A study by The Urban Institute found that the present legal framework for municipal borrowing is ambiguous and incomplete. The program's Legal Task Force on Municipal Issuance will identify and advocate for fundamental reforms that enhance municipalities' access to capital markets. A working group of project staff and municipal officials, organized by the Association of Ukrainian Cities, will advocate for stabilizing transfer payment amounts and improving local fiscal autonomy.

Communal service enterprises (utilities) present a special set of challenges and opportunities for bond financing. Many utilities are struggling, but a few are reportedly in sound financial condition. Although most of them are city-owned, utilities are for-profit companies that generate revenues for services, maintain commercial bank accounts, and are subject to Ukrainian enterprise accounting standards. Legislation enacted in 2004 entitles utilities to receive full-cost recovery tariffs, although the law has yet to be tested. The State Committee of Ukraine on Housing and Communal Economy is collaborating with Access to Credit to identify sound investment proposals from creditworthy utilities. The USAID/PADCO Tariff Reform Project has already identified 12 relatively strong utility companies in medium-sized cities.

Legal Task Force for Municipal Issuance

The Legal Task Force for Municipal Issuance will meet regularly throughout the term of the program. The Commercial Law Center will provide expert support. Members will include representatives from the Ministry of Finance; the Association of Ukrainian Cities; the State Committee of Ukraine on Housing and Communal Economy; local governments and utilities; investment banks; the Securities and Stock Markets State Commission of Ukraine (SSMSC); investors; and USAID's projects to reform

utility tariffs and municipal finance. Legal Task Force membership will change over time, as some obstacles to bond issuance are removed, and new ones arise.

The Legal Task Force will address these issues:

- Authority to borrow;
- Eligible purposes of borrowing;
- Characteristics of municipal debt (term and security);
- Central government borrowing approval, monitoring and intervention;
- Authorized sources for repayment;
- Guarantees and credit enhancements, including local guarantees for utility company debt;
- Available collateral, including physical collateral and future revenue streams;
- Ability to enforce collateral rights;
- State Treasury rules for executing local budgets;
- Ability of utility companies to charge and collect cost-recovery tariffs;
- Disclosure to investors;
- Trustee structure;
- Prudential investment of proceeds;
- Remedies in case of default;
- Issuer insolvency; and
- Securities exchange listing requirements.

Bond investors must be able to predict municipal revenues accurately in order to evaluate the safety of their investment throughout the bond term. Few Ukrainian municipalities derive more than 10 or 15 percent of their revenues from sources under their autonomous control. Transfer payments and taxes shared with the central government comprise the core of municipal revenues. Stable, predictable transfers and tax share payments are the essence of municipal creditworthiness. The program will collaborate with the Association of Ukrainian Cities to reduce the volatility of municipal finance.

The Task Force will receive advice from internationally experienced bond counsel about how to structure bond issues to safeguard the interests of issuers and investors. Proven methods include: trustee organizations that strictly monitor fund draws; contractual guarantees that bond proceeds will be invested prudently prior to disbursement for capital expenditures; and interception of debt service payments in the normal course of repayment, not solely in the event of default.

A Pragma senior advisor will chair the Legal Task Force initially, but during the course of the project, successor hosts and chairs will be identified—for example, the Commercial Law Center, the Association of Ukrainian Cities, or possibly a representative from a future Ukrainian bond industry association. Regardless of which particular organization leads its work at any given time, the Task Force will pursue a constant objective: drafting and promoting new laws and regulations that enable bond issuance with standardized, transparent procedures, using best municipal finance practice.

Preparation for Pilot Municipal Bonds

Financial Advisory Team

Municipalities and utility companies issue bonds infrequently. Few of them can bring a bond issue to completion without specialized financial advisors and legal counsel. To prepare municipalities and utilities for issuance, and to structure bond issues, Access to Credit has created a team of Ukrainian advisors expert in finance, law, accounting, and public budgeting. With Pragma's senior advisors and support from international municipal finance experts, the financial advisory team will evaluate financing proposals; assess issuer creditworthiness; identify repayment sources and credit enhancements; create the legal and financial structure of bond issues; and lead the entire process of bringing bond issues to the investor market. The team will also help issuers select Ukrainian investment banks as lead managers to place municipal debt with investors.

Research and Comparative Analysis

Preliminary screening research (known as “due diligence”) will identify municipalities and utilities that appear to be creditworthy, well-managed, and financially transparent. The Association of Ukrainian Cities and the State Committee of Ukraine on Housing and Communal Economy will assist with due diligence research. We will seek advice from USAID projects on municipal budgeting, tariff reform, and local economic development.

The team will evaluate which proposals can realistically be financed under current Ukrainian market interest rates and terms. Due diligence research will include:

- interviewing management to define financial objectives
- reviewing financial statements, trends, operating data, capital budgets and forecasts
- analyzing financial management systems to identify specific revenue streams, such as user fees, utility rates, and special taxes
- understanding the legal/regulatory environment.

Selecting Candidates for Issuance

Using financial modeling, our team will compare financing proposals and recommend to USAID the 10-15 most creditworthy candidates for intensive technical and legal support leading to bond issuance.

Issuance Plans

Feasible financing proposals will generate issuance plans that specify use of proceeds, financial and legal structures, and credit enhancements (such as debt service reserve fund, sinking fund, negative pledge, bond insurance, or possibly a USAID Development Credit Authority 50 percent guarantee). Issuance plans will include time lines for resolving legal issues and preparing investment memoranda.

Rating Agency

The credit rating industry aims to provide investors with reliable estimates of the probability that issuers will default. Credible ratings are a key component of mature bond markets. At present there are two companies offering national-scale ratings: Standard & Poor's and Credit Rating. Pragma will promote credit rating quality and rating agency competition as an essential part of Ukrainian bond market evolution.

Issuance of Pilot Municipal Bonds

Authority to Borrow

We will help municipalities and utilities secure city council approval for bond issuance. If requested, Pragma will prepare and conduct approval presentations or "road shows."

Selecting and Assisting Certified Financial Advisors

Our team will help municipalities select certified financial advisors from the local investment banking community, and will work with selected advisors to prepare pilot bond issues. The extensive preparation organized by our own team will make little-known municipal and utility issuers understandable to mainstream financial advisors. Our attorney will brief the advisors on special legal issues, and will review or prepare legal opinions.

Selecting a Rating Agency

We will advise potential issuers on the scope and merits of credit rating products available in Ukraine, and will help to negotiate cost-effective solutions that meet issuer objectives and regulatory requirements.

Placing the Issue

Bonds may be auctioned through PFTS, or marketed by a syndicate or selling group. In either case, the team will assist the lead manager in assembling and disseminating price recommendations before auction or syndication. The team will help financial advisors draft investment memoranda summarizing bond issues, and will prepare presentations for investors. We will assist financial advisors and bond counsel in selecting temporary investments that are consistent with draw schedules and covenants. To maintain liquidity for issues publicly placed, our team will work closely with broker-dealers, underwriters, and PFTS to ensure that buy/sell quotes with reasonable spreads are posted, along with sale prices and size of trade.

Registration and Listing Procedures

The financial advisory team will assist issuers with SSMSC registration, disclosure, credit rating requirements, and Ministry of Finance review.

We will help issuers list bonds on the PFTS stock exchange. In the process, we will discover what changes, if any, are needed to facilitate PFTS listing.

Continued Technical Assistance

The twin activities of bringing pilot bonds to market and advocating for legal reforms will build transaction and policy expertise within the program. Pragma's financial advisory team and the Legal Task Force for Municipal Issuance will become authorities on municipal issuance and the legal framework that supports it.

Training for Potential Issuers

The program will offer its technical know-how and legal expertise to public finance practitioners nationwide. Training for potential issuers will be provided in the following topics:

- the mathematics of bonds
- security provisions and remedies
- how outside auditors support disclosure and transparency
- how credit rating agencies evaluate municipal debt
- how the Ministry of Finance regulates bond issuance
- what financial advisors and broker-dealers do, and how to select them
- how to prepare and deliver a "road show" for investors
- registering bond issues with SSMSC
- meeting SSMSC credit rating requirements
- listing and auction procedures on the PFTS securities exchange.

Information-Sharing

During the course of the project, the Legal Task Force will become a clearinghouse of information on municipal issuance. It will share information with the Ministry of Finance, SSMSC, PFTS, broker-dealers, rating agencies, and city councils.

In addition to technical training, experience from pilot issues and the Legal Task Force will be condensed into a public education campaign. Citizens and their elected representatives will learn how communities can finance capital investments with municipal bonds.

LEASING ATTACHMENTS

Protocol on Cooperation and Coordination

Kyiv, Ukraine

January 28, 2005

This Protocol of Cooperation and Coordination (hereafter "Protocol") is entered into by and between the Ukrainian Association of Leasing "UKRLEASING" (hereinafter "UKRLEASING") represented by Yuriy Sosyurko, President, and

The Access to Credit Initiative, (hereinafter "ATCI") implemented by The Pragma Corporation, USAID/Ukraine represented by the Chief of Party, David C. M. Lucterhand.

Whereas, UKRLEASING and ATCI (hereinafter the "Parties") are guided by their mutual interest in the creation of favorable conditions for the development of a financial leasing market that will serve as a primary tool to increase access to medium term equipment financing by small and medium-sized enterprises (SME's) in the Ukraine.

Whereas, the Parties believe that their mutual interests can be more efficiently and effectively achieved through a combination of their respective resources;

Whereas, the Parties are aware that, through outreach and information exchange, their mutual goals are to widely disseminate information on financial leasing, and recognize that expected results of cooperation are: a) creation of channels for distribution of information on leasing expertise and best practices within the business community; b) basic knowledge of the leasing mechanism and increased benefits among business persons, legal professionals, the media and the public.

Whereas, the Parties recognize that a robust credit culture and data sharing of credit information, consistent with the laws of Ukraine, are powerful stimuli to the development of financial leasing in Ukraine

Whereas, the Parties are aware that Ukraine's leasing law has been approved by the Verkhovna Rada of Ukraine

Whereas, the Parties recognize the importance of leasing as a means to develop the economy and to increase access to credit for small businesses and the people of Ukraine, and intend to abide by the laws and regulations of Ukraine when carrying out this protocol.

Whereas, the Parties agree that it is in both their interest to enter into this Protocol; and

Now therefore, the Parties hereby conclude this Protocol with respect to the following:

ARTICLE 1

The Parties shall use resources and opportunities available to them to create a supportive environment for modern financial leasing. The growth of leasing will contribute to economic development, to the stability of the financial sector and to increased small business activity.

The Parties shall work together to help improve the leasing industry through training and consulting; provision of training for potential lessees, farmers, regulators, government as well as

other interested parties, such as vendors, banks; consulting potential foreign partners in the sector; and conducting public awareness efforts.

In order to build the capacity of market participants, the Parties will initiate a series of training courses. These training programs will disseminate technical information to ensure all market participants - lessors, lessees, banks and vendors - attain an understanding of financial leasing and learn the technical skills needed to conduct efficient and profitable leasing operations.

The parties further recognize that they must address a wide range of issues including, but not limited to, the regulatory, tax and accounting environments, the relations between lessors and lessees, their underwriting, structuring and management of leasing transactions, funding of leasing companies, marketing, and training.

The Parties recognize that ATCI will also provide consulting services to market participants to increase the capacity of leasing companies at the enterprise level so that management can adopt and implement international best practices, standards, principles and ethics. This will be achieved through comprehensive on-site or in-firm consulting.

In implementing this Protocol, the Parties shall coordinate their efforts to create a supportive environment for modern financial leasing as a means to develop entrepreneurship consistent with the laws of Ukraine, that will lead in the medium term to a more robust retail, small business and banking sector.

ARTICLE 2

The Parties have agreed to cooperate in, yet not to restrict their cooperation to, the following areas:

- providing consultancy on a daily basis (over a three year period) in order to help the leasing industry develop into a robust sector, increasing access to credit throughout the country, particularly in the SME and agricultural sectors;
- Providing consultancy to the leasing sector to help it comply with international standards of best practice over the life of this Protocol;
- training of market participants; the parties will initiate a series of training courses. These training programs will disseminate technical information to ensure all market participants - lessors, lessees, banks and vendors - attain an understanding of financial leasing and learn the technical skills needed to conduct efficient and profitable leasing operations. The result expected is strengthened knowledge and skills in leasing of a crucial mass of managers, lawyers, accountants of the leasing companies, potential lessees, banks, and government officials.
- developing a ***Certified Financial Lessor Program***, (under the auspices of UKRLEASING), in order to build trained capacity in financial leasing. The parties, after determining the success of the initial training, plan to design and launch a series of more intense leasing courses, from which successful participants will graduate as Certified Financial Lessors.
- assisting the UKRLEASING and/or its members in attracting foreign partners on matters of a business and technical nature, including but not limited to debt and other types of financing to facilitate the funding of equipment leases.

- designing, facilitating and delivering joint seminars, conferences, round table discussions, forums and other events and actions in order to deepen public awareness of the role of leasing, to encourage the development of a credit culture, facilitate minimum underwriting standards, and other similar activities as envisaged in this Protocol.
- provide specific on-site consulting to leasing companies, lessee, and other market participants, where appropriate, including in matters related to tax and accounting issues.
- collaborating in the publication of materials for the press, for the financial and non-financial sectors, and for other interested parties, such as government, agricultural organizations and small business;
- identifying data suppliers in the non-financial sector including telecommunication companies, utilities, small business organizations, and agricultural cooperatives.
- assisting in marketing the importance of leasing to regions outside of Kiev, with a particular focus on agriculture and industrial areas throughout Ukraine.
- assisting market participants with product development and services such as various leasing products and structures directed at different sectors of the economy including but not limited to agriculture, medical technology and telecommunications.
- assisting in the development of contacts and relationships with international leasing companies, equipment suppliers, and professional organizations, including the facilitation of efforts to visit operators in Western Europe, as appropriate.
- assisting in the development of a web-site.
- monitoring the legal and regulatory framework for the leasing sector; review forthcoming legislation, such as the Credit Bureau law, so that such legislation is not only compatible but improve the environment for leasing.
- render mutual assistance in gathering, drafting, reviewing, finalizing and presenting material to market participants;
- exchange information obtained by the Parties in the course of fulfilling this Protocol, conduct consultations on new areas and prospects of cooperation, inform each other of events and activities (programs, projects, seminars, task forces, discussions, etc) in respect of the issues envisaged in this Protocol;

ARTICLE 3

Neither Party shall use the name, logotype or other attributes of the other or act on its behalf. The Parties shall have the right to distribute jointly prepared materials, with obligatory mentioning of the other Party's authorship. The Parties also agree that neither the ATCI, nor the UKRLEASING, shall be responsible for the operation of the other Party.

By signing this Protocol, the Parties recognize that the activities envisaged in this Protocol, at every stage of cooperation, shall be performed exclusively at each Party's own expense and that there shall be no grounds for compensation or reimbursement of one Party's costs by the other.

ARTICLE 4

The Protocol shall be effective from the date of its signing and is valid for an indefinite length of time;

The Protocol shall be terminated by either party at will. Changes and amendments to the Protocol shall not be effective unless incorporated in writing signed by both of the Parties.

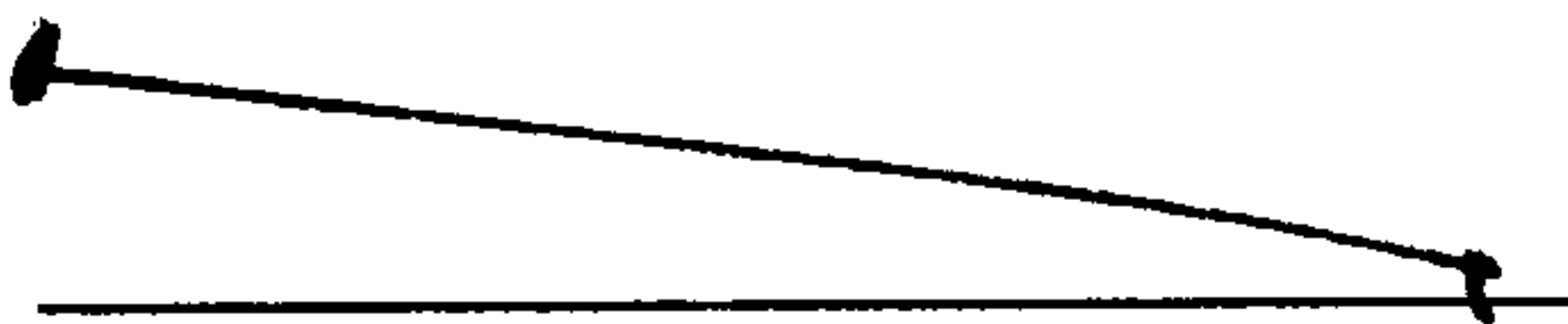
Each Party agrees to hold harmless the other Party against any claims or liability that may arise from the performance of the Protocol. This Protocol neither creates nor restricts rights to third parties. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent.

The Protocol is made in two copies and in two languages - English and Ukrainian - one for each Party, both being equally authentic.

ARTICLE 5

This Protocol is signed:

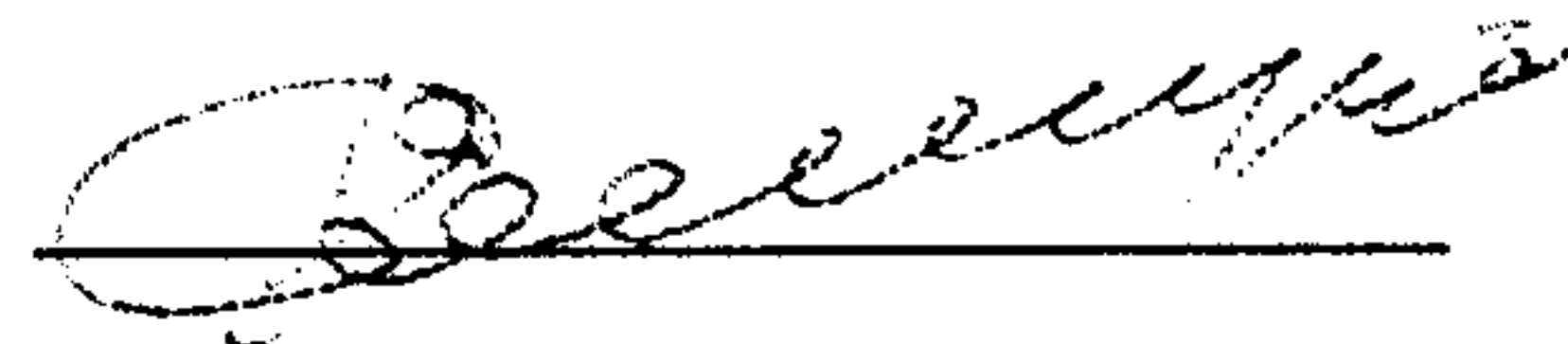
On behalf of The Pragma Corporation -
Access to Credit Initiative , USAID/Ukraine by



David C.M. Lucterhand ,

Chief of Party

On behalf of the Ukrainian
Association of Leasing "UKRLEASING"
by



Yuriy Sosyurko,

President

THE PRAGMA CORPORATION
Access To Credit Initiative
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КОРПОРАЦІЯ ПРАГМА
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Summary of Working Session

This document is meant to summarize key conclusions from the May 24, 2005 working session of International and Ukrainian experts from three technical assistance projects that are working towards the objective of establishing a favorable legal and tax environment for leasing in Ukraine: Leasing Development Project in Ukraine (IFC); The Commercial Law Center Project (CLC) - Emerging Markets Group / USAID; and The Access to Credit Initiative (ATCI) - The Pragma Corporation / USAID. The goal of this meeting was to ensure that the three projects share a common view with regard to the main legal and tax issues to be addressed in facilitating the development of leasing in Ukraine.

This meeting was confirmed that the experts from each TA project were in general agreement as to the key issues that need to be addressed. Furthermore, it was confirmed that all parties were committed to working together to assist the Government of Ukraine in establishing a clear and favorable legal and tax environment to facilitate the development of Ukraine's leasing industry. The key issues identified in this meeting are summarized in general terms below, and may be used as the basis for cooperation with relevant industry stakeholders and government officials interested in working to improve conditions for leasing in Ukraine.

Key Legal/Tax Issues to Improve the Environment for Leasing Development in Ukraine

Some issues regarding the legal and tax treatment of lease transactions affect different sectors within the industry, however, there are over-arching themes that act as deterrents to the development of the industry overall and its ability to attract capital from investors and other potential market entrants. The major legal and tax issues fall into the following themes or categories:

- **Unequal tax treatment of leasing versus comparable forms of financing**
- **Burdensome taxation for operating leasing of automobiles**
- **Inconsistent definitions and unclear legal and tax treatment**
- **Lack of accelerated tax depreciation to encourage investment in capital equipment**

Please note that this document attempts to summarize the highest priority items identified in the working session that will create a more conducive environment for leasing in Ukraine. This is not meant to be a comprehensive list and should not be received as a complete set of recommendations. The goal of this document is to establish a starting point for in-depth discussion of these issues and as a basis for developing more detailed recommendations by industry stakeholders.

i. Unequal Tax Treatment of Leasing Versus Comparable Forms of Financing

- The current taxation scheme for financial leasing does not reflect the economic nature of such a transaction. This results in excessive taxation in the case of early termination of a financial leasing agreement and repossession of a leased asset by a lessor:
 - a lessor is required to pay a profit tax as a result of repossessing the leased asset at a cost exceeding the lessee's debt to the lessor;
 - if a lessor fails to re-lease the repossessed asset or to sell it on a timely basis, such a lessor will accrue an additional profit tax liability;
 - when a leased asset is repossessed, a lessee accrues a VAT tax liability; however, since no payments are made by a lessor to a lessee, in most of the cases such a lessee will not be able to pay an accrued tax to the budget.

The current taxation scheme for financial leasing creates serious problems for leasing participants and has a negative impact on financial leasing development on the whole. It is necessary to make changes to tax legislation, which will establish a sound taxation scheme for financial leasing. The taxation treatment should be equal for early repossession of a leased asset and collateral seized by banks in the case of loan default.

- Prior to March 31, 2005, interest and commissions charged by leasing companies as part of financial lease payments was not subject to VAT (just the same as bank interest). However, in the recently passed Law "On the State Budget of Ukraine for 2005" (No. 2502 – IV), the interest or commission charged by leasing companies as part of financial lease payments that exceed twice the NBU rate, are subject to VAT. While there are many faults with such a provision being part of Ukraine's legislation, the end result may be unequal tax treatment of financial leasing versus bank financing.

Two of the potential methods to address this issue include:

1. *This change to the Law on VAT should be amended to result in equal VAT treatment of financial leases and bank loans.*
2. *The extent to which this may negatively affect the leasing industry depends on the interpretation of the law with regard to the definition of "interest and commissions." If the definition is clarified to exclude the cost of capital (typically interest on a bank loan to the lessor to fund the transaction), and refers precisely to the margin charged by the leasing company on top of its cost of capital, this will significantly limit the negative consequences to the leasing industry of this tax policy.*

ii. Burdensome Taxation for Operating Leasing of Automobiles

- According to the Law on Profit Tax of Ukraine, under an operating lease for an automobile, lessees may include only 50% of their lease payments as expenses when calculating profit tax.

Such treatment of operating leasing does not reflect the real economic nature of such transactions. Operating lease payments reflect real business expenses for enterprises and therefore it is not understandable why such payments would not be fully expensed.

- When purchasing an automobile, an enterprise may not record a VAT credit for VAT paid. The result is that the cost of the car immediately becomes 20% more expensive. This will result with each consecutive sale (including the purchase option in a lease) of an automobile from one legal entity to another.

There is an exception for taxis as they are productive assets of such organizations. Given that automobiles represent the main productive assets for car rental companies and operating lessors of automobiles, taxation of such companies should be amended to avoid multiple VAT treatment on their primary activities. This would be consistent with certain European countries such as Great Britain.

Such provisions make it appear as if there is a conscious effort to make operating leasing of automobiles less competitive relative to other methods of financing automobiles, in particular, bank loans. As the largest and fastest growing sector of the private leasing industry, this sends a negative message to the investment community as a whole as to the government's support for development of the leasing market.

iii. Inconsistent Definitions and Unclear Legal Treatment of Lease Transactions Among Different Legislative Acts

- There are conflicting definitions and legal treatment of leasing in Ukraine's Commercial Code relative to the Civil Code and the Law on Financial Leasing. These ambiguities result in unclear rights of parties to a lease transaction, particularly regarding the three-party economic nature of a financial lease transaction.

All relevant laws should be amended to provide for a unified and clear definition and legal treatment of lease transactions. This includes recognizing the arms-length role of a lessor as simply a financial intermediary in a financial leasing transaction.

iv. Lack of accelerated tax depreciation to encourage investment in capital equipment

- Finally, it is important to mention that slow depreciation schedules in Ukraine and the lack of available accelerated depreciation for tax purposes, affects leasing indirectly in that it generally discourages investment in capital assets. This negatively affects Ukraine's overall economic development as well as the development of Ukraine's leasing industry.

This issue may be addressed in a number of different ways based on Ukraine's overall fiscal policy. There are a number of methods to address this issue that either target depreciation of leased assets directly or that take a more comprehensive approach to reform of depreciation of fixed assets in Ukraine.

As evidenced above, the legal and tax issues that hinder the development of the leasing industry are numerous and often complex. Therefore, the undersigned agree to work together in assisting the Government of Ukraine in understanding and addressing these issues.

The projects will cooperate to provide the necessary information, analyses, and examples to key decision makers and work with relevant government bodies to develop detailed recommendations in the appropriate format and with the appropriate supporting materials to facilitate the above noted improvements to the legal and tax framework for leasing in Ukraine.

CREDIT BUREAU ATTACHMENTS

**Comparative Table
to the Draft Law of Ukraine
“On Organization of Formation and Circulation of Credit Histories”
Reg. # 4196**

Authors: S. Tyhipko, the NBU
Authors of the final edition: MPs, members of the VRU Committee on banking operation
Date of consideration: November 11, 2004

(second reading)

The Law passed in the first reading	Comments and proposed amendments	Conclusions	Edited for the second reading
<p style="text-align: center;">Draft law of Ukraine On Organization of Formation and Circulation of Credit Histories</p> <p>The present Law shall establish legal and organizational fundamentals for formation and keeping of credit histories, the rights of subjects of credit histories, the requirements to protection of information contained in a credit history, the procedure of creation, operation and liquidation of credit information companies.</p> <p style="text-align: center;">Chapter I. GENERAL PROVISIONS</p> <p>Article 1. Objective of the Law</p> <p>The objective of the present Law shall be to regulate social relations arising in the area of collecting, storage, use and use of information</p>	<p>1. <u>MP O.Karpov</u> In the text of the draft law the word ‘Participant’ shall be substituted by the word ‘User’.</p> <p>2. <u>MP V.Horbal</u> Preamble of the draft law shall read as follows: “The present Law shall establish legal and organizational fundamentals for formation and keeping of credit histories, the procedure of creation, operation and liquidation of credit information companies, the rights of subjects of credit histories and the participants to credit information companies, the requirements to protection of information contained in a credit history.”</p> <p>3. <u>MP V.Horbal</u> In Article 1 the word ‘storage’ shall</p>	<p>Accepted</p> <p>Accepted</p> <p>Accepted</p>	<p style="text-align: center;">Draft law of Ukraine On Organization of Formation and Circulation of Credit Histories</p> <p>The present Law shall establish legal and organizational fundamentals for formation and keeping of credit histories, the rights of subjects of credit histories and the participants to credit information companies,, the requirements to protection of information contained in a credit history, the procedure of creation, operation and liquidation of credit information companies.</p> <p style="text-align: center;">Chapter I. GENERAL PROVISIONS</p> <p>Article 1. Objective of the Law</p> <p>The objective of the present Law shall be to regulate social relations arising in the area of collecting, processing, storage, protection and use of information on fulfillment by the persons of</p>

<p>on fulfillment by the persons of their monetary obligations, functioning of institutions engaged in exchange of information on monetary obligations and securing rights and interests of the subjects of credit histories.</p> <p>Article 2. Legislation in the Area of Formation and Circulation of Credit Histories</p> <p>Relations in the area of formation and keeping of credit histories shall be regulated by the Constitution of Ukraine, the present Law, international treaties and agreements ratified by Ukraine and by the regulatory acts approved pursuant to this Law.</p>	<p>be substituted by the words ‘processing, storage, protection’.</p> <p>4. <u>MP V.Horbal</u> In Article 2 after the words ‘the present Law’ add the words ‘other laws of Ukraine’.</p> <p>5. <u>MP I.Kuras</u> Article 2 shall read as follows: “Relations in the area of formation and keeping of credit histories shall be regulated by the Constitution of Ukraine, the Law of Ukraine “On Banks and Banking Activity”, the present Law, international treaties and agreements ratified by Ukraine and by the regulatory acts approved pursuant to this Law”.</p> <p>6. <u>MP O.Karpov</u> Article 2 shall read as follows: “Relations in the area of formation and keeping of credit histories shall be regulated by the Constitution of Ukraine, the present Law, other laws of Ukraine, international treaties consent for obligatoriness thereof is given by the Verkhovna Rada of Ukraine as well as by the other regulatory acts issued to implement the laws.”</p>	<p>Accepted</p> <p>Accepted <i>per se</i></p> <p>Accepted</p>	<p>their monetary obligations, functioning of institutions engaged in exchange of information on monetary obligations and securing rights and interests of the subjects of credit histories.</p> <p>Article 2. Legislation in the Area of Formation and Circulation of Credit Histories</p> <p>Relations in the area of formation and keeping of credit histories shall be regulated by the Constitution of Ukraine, the present Law, other laws of Ukraine, international treaties consent for obligatoriness thereof is given by the Verkhovna Rada of Ukraine as well as by the other regulatory acts issued to implement the laws.”</p>
<p>Article 3. Definition of Terms</p> <p>The terms used in this Law shall have the following meanings:</p>	<p>7. <u>MP T. Dovhyi</u> Paragraph 3, part one, Article 3 shall read as follows: ‘credit history’- a systematized</p>	<p>Accepted editorially</p>	<p>Article 3. Definition of Terms</p> <p>The terms used in this Law shall have the following meanings:</p>

<p><i>'credit information company'</i> (hereinafter the Company) - a legal entity, whose exclusive activity is collecting, storage, use of information contained in a credit history;</p> <p><i>'keeping credit history'</i> – activity of the Company on collection, processing, storage, protection, use of information contained in a credit history;</p> <p><i>'credit history'</i> – the aggregate of information about a legal or physical entity in respect of fulfillment by it of the credit transaction and the identity data of such entity;</p> <p><i>'participant to the credit information Company'</i> (hereinafter the Participant) - a legal entity or an individual, a subject of business, that concludes credit transactions and pursuant to the Agreement provides and is entitled to receive information contained in a credit history;</p> <p><i>'Agreement'</i> – a transaction, the parties thereto being the Participant and the Company and the subject matter thereof being regulation of issues on supply and obtaining of information contained in a credit history;</p>	<p>information about a subject of credit history the contents thereof corresponds to Article 7 of this Law’.</p> <p>8. <u>MP V.Horbal</u> 1) Part 2 Article 3 shall read as follows: “<i>'credit information company' (hereinafter the Company) - a legal entity, whose exclusive activity is keeping credit histories and providing services connected with processing and analysis of information being the subject matter of credit histories;</i>” 2) Part 7 Article 3 shall read as follows: “<i>'Statute of the Company' – rules on formation and keeping of credit histories approved by the Board of the Company</i>”;</p> <p>9. <u>MP I.Kuras</u> Add new paragraphs 4-6 to Article 3. Paragraphs 4-11 shall be considered paragraphs 7-14 respectively: “4. Actual entry to credit history – the last entry to credit history of a legal or physical entity on fulfillment of credit transaction and on identity data of such an entity received by the credit information company. 5. Archival entry to credit history – an entry to credit history that is not actual and is contained in the credit information company.</p>	<p>Accepted partially</p> <p>Rejected</p> <p>Rejected</p> <p>Accepted <i>per se</i></p> <p>Accepted <i>per se</i></p>	<p><i>'credit information company'</i> (hereinafter the Company) - a legal entity, whose exclusive activity is collecting, storage, use of information contained in a credit history;</p> <p><i>'keeping credit history'</i> – activity of the Company on collection, processing, storage, protection, use of information contained in a credit history;</p> <p><i>'credit history'</i> – the aggregate of information about a legal or physical entity identifying it, information in respect of fulfillment by it of the obligations under credit transactions, other open information pursuant to the law ;</p> <p><i>'user of the credit information Company'</i> (hereinafter the User) - a legal entity or an individual, a subject of business, that concludes credit transactions and pursuant to the Agreement provides and is entitled to receive information contained in a credit history;</p> <p><i>'Agreement'</i> – a transaction, the parties thereto being the User and the Company and the subject matter thereof being regulation of issues on supply and obtaining of information contained in a credit history;</p> <p><i>'Statute of the Company'</i> – rules on formation and keeping of credit histories approved by the executive body of the Company and agreed upon by the Authorized Body;</p> <p><i>'credit report'</i> – the aggregate of information about a subject of credit history being the full or partial reflection of the credit history;</p>
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state regulation of the Company operation.	<p>a credit report digitally depicted;</p> <p>5) Paragraph 11 Art. 3 shall read: ‘subject of credit history’ - any legal entity or an individual that concluded a credit transaction and in respect thereof a credit history is being formed;</p> <p>6) Paragraph 12 Art. 3 shall read: ‘authorized body’ – an executive authority defined by the Cabinet of Ministers of Ukraine that performs state regulation of the Company operation.</p>	Accepted	
<p>Article 4. Principles of Formation and Access to Information Contained in a Credit History</p> <p>Formation and access to information contained in a credit history shall be based on the following principles:</p> <p>guarantee of constitutional rights and freedoms of the subjects of credit histories;</p> <p>compliance of the scope of information with the objectives of its collection;</p> <p>completeness, comprehensiveness, objectivity and reliability of information; systematic and uninterrupted</p>	<p>11. <u>MP O.Karpov:</u> the word ‘completeness’ substitute by the word ‘significance’ in paragraph 4 Article 4.</p>	Accepted	<p>Article 4. Principles of Formation and Access to Information Contained in a Credit History</p> <p>Formation and access to information contained in a credit history shall be based on the following principles:</p> <p>guarantee of constitutional rights and freedoms of the subjects of credit histories;</p> <p>compliance of the scope of information with the objectives of its collection;</p> <p>significance, comprehensiveness, objectivity and reliability of information;</p> <p>systematic and uninterrupted supply of information;</p> <p>targeted use of information;</p>

<p>supply of information;</p> <p>targeted use of information;</p> <p>limited term of information storage;</p> <p>confidentiality of information and its protection;</p> <p>collection and supply of information contained in a credit history exclusively upon the consent of the subject of this credit history;</p> <p>independence of the Company.</p> <p>Chapter II. CREDIT HISTORIES</p> <p>Article 5. Sources of Credit History Formation</p> <p>1. Sources of information being an object of credit histories shall be:</p> <p style="padding-left: 40px;">information supplied by the Participant to the Company pursuant to this Law;</p> <p style="padding-left: 40px;">information from the registries of general access and other public databases.</p>	<p>12. <u><i>MP O.Karpov</i></u></p> <p>Article 5 shall read as follows:</p> <p>Article 5. Sources of Credit History Formation</p> <p>1. Sources of credit history formation shall be:</p> <p style="padding-left: 40px;">information supplied by the User to the Company pursuant to this Law; information from the registries of general access and other public databases.</p> <p>2. The Company shall be entitled to obtain the information stipulated in part 1 hereof upon contractual basis.</p>	<p>Accepted</p>	<p>limited term of information storage;</p> <p>confidentiality of information and its protection;</p> <p>collection and supply of information contained in a credit history exclusively upon the consent of the subject of this credit history;</p> <p>independence of the Company.</p> <p>Chapter II. CREDIT HISTORIES</p> <p>Article 5. Sources of Credit History Formation</p> <p>1. Sources of credit history formation shall be:</p> <p style="padding-left: 40px;">information supplied by the User to the Company pursuant to this Law;</p> <p style="padding-left: 40px;">information from the registries of general access and other public databases.</p> <p>2. The Company shall be entitled to obtain the information stipulated in part 1 hereof upon contractual basis.</p>
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<p>Article 6. Participants to the Company</p> <p>Participants to the Company may be:</p> <ul style="list-style-type: none"> a bank; a credit union; a pawn-shop; a leasing company; an insurance company; an issuer of special means of payment; a subject of business that renders services on a constant basis or sells goods on credit. 	<p>13. <u>MP O.Karpov</u></p> <p>Part one, Article 6 shall read as follows:</p> <p>1.The Users of the Company may be banks, non-banking financial institutions and the other subjects of economic activity that provide services with deferring of payments or give property on credit.</p>	<p>Accepted</p>	<p>Article 6. Users of the Company</p> <p>1.The Users of the Company may be banks, non-banking financial institutions and the other subjects of economic activity that provide services with deferring of payments or give property on credit.</p>
<p>Article 7. Contents of Credit History</p> <p>1. A credit history shall include the following information:</p> <ul style="list-style-type: none"> 1) Information identifying a person: <ul style="list-style-type: none"> a) for an individual: first name, last name and patronymic name; 	<p>14. <u>MP O.Karpov</u></p> <p>1) Article 7 shall be entitled: “Information Contained in Credit History”</p> <p>2) Item 4 part one Article 7 shall read as follows: “4. Data about operations with the credit history information: a) date of the credit history renewal;</p>	<p>Accepted</p> <p>Accepted</p>	<p>Article 7. Information Contained in Credit History</p> <p>1. A credit history shall include the following information:</p> <ul style="list-style-type: none"> 1) Information identifying a person: <ul style="list-style-type: none"> a) for an individual: first name, last name and patronymic name; date of birth;

<p>date of birth; passport data; place of residence; identification number per the State Registry of physical entities –taxpayers (if any); information about current employment; marital status and number of dependents; state registration number and date, information about the state registration body and the major subject of economic activity of an individual - a subject of businesses.</p> <p>b) for legal entities: full name; place of location; date and number of state registration, information about the state registration body; identification code per the Unified State Registry of Enterprises and Organizations of Ukraine; first name, last name and patronymic name, passport data of the manager and chief accountant; major type of economic activity; identity information about the owners that hold 10 per</p>	<p>b) name of the User that supplied information to credit history in case of its consent hereto; c) comments of the subject of credit history in cases stipulated by this Law.”</p> <p>3) Part two Article 7 shall read as follows: “2. Registry of inquiries shall contain the following information: a) dates of inquiry to supply credit reports and information about supply of credit reports; b) information about the User that submitted information to the credit history of the subject of credit history as well as information about the User who made an inquiry about supply of information contained in the credit history: for individuals – subjects of business: first name, last name, patronymic name, identification number, place of residence and telephone number; for legal entities: full name, code of legal entity per the Unified State Registry of Enterprises and Organizations of Ukraine and information about an authorized person – the User’s representative who made an inquiry, his location and telephone number;</p>	<p>Accepted</p>	<p>passport data; place of residence; identification number per the State Registry of physical entities –taxpayers (if any); information about current employment; marital status and number of dependents; state registration number and date, information about the state registration body and the major subject of economic activity of an individual - a subject of businesses.</p> <p>b) for legal entities: full name; place of location; date and number of state registration, information about the state registration body; identification code per the Unified State Registry of Enterprises and Organizations of Ukraine; first name, last name and patronymic name, passport data of the manager and chief accountant; major type of economic activity; identity information about the owners that hold 10 per cent and more of the authorized capital of a legal entity: for physical entities, the owners – first name, last name and patronymic name, passport data, identification number and place of residence; for legal entities, the owners – full name, location, date and number of state registration, information about the state registration body, identification code per</p>
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<p>e) information about the amount repaid and the final sum of obligation under the credit transaction;</p> <p>f) date of an overdue obligation arising under the credit transaction, its amount and stage of repayment;</p> <p>g) information about termination of the credit transaction and mode of termination (including upon the parties' consent, through court, warrant, etc.);</p> <p>h) information about declaring the credit transaction invalid and grounds for such declaration;</p> <p>3) Public information about the subject of credit history that contains in the aggregate of documentary or publicly announced open information about a person obtained from the sources of general access:</p> <p>a) indebtedness on taxes and compulsory payments;</p> <p>b) court decisions in respect of arising, fulfillment and termination of</p>			<p>documentary or publicly announced open information about a person obtained from the sources of general access:</p> <p>a) indebtedness on taxes and compulsory payments;</p> <p>b) court decisions in respect of arising, fulfillment and termination of obligations under the concluded credit transaction;</p> <p>c) court and executive body decisions in respect of property status of a subject of credit history;</p> <p>d) other information that governs the capability of the subject of credit history to fulfill its own obligations;</p> <p>4) Data about operations with the credit history information:</p> <p>a) date of the credit history renewal;</p> <p>b) name of the User that supplied information to credit history in case of its consent hereto;</p> <p>c) comments of the subject of credit history in cases stipulated by this Law.</p> <p>2. Registry of inquiries shall contain the following information:</p> <p>a) dates of inquiry to supply credit reports and information about supply of credit reports;</p> <p>b) information about the User that submitted information to the credit</p>
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<p>obligations under the concluded credit transaction;</p> <p>c) court and executive body decisions in respect of property status of a subject of credit history;</p> <p>d) other information that governs the capability of the subject of credit history to fulfill its own obligations;</p> <p>4) Data about operations with the credit history information:</p> <p>a) date of the credit history renewal;</p> <p>b) list and dates of inquiries for a credit history;</p> <p>c) information about the Participant that inquired a credit history:</p> <p>for individuals – subjects of entrepreneurship: first name, last name, patronymic name, identification number and place of residence;</p> <p>for legal entities: full name, code of a legal</p>			<p>history of the subject of credit history as well as information about the User who made an inquiry about supply of information contained in the credit history:</p> <p>for individuals – subjects of business: first name, last name, patronymic name, identification number, place of residence and telephone number;</p> <p>for legal entities: full name, code of legal entity per the Unified State Registry of Enterprises and Organizations of Ukraine and information about an authorized person – the User’s representative who made an inquiry, his location and telephone number;</p> <p>c) type of a credit report supplied.</p> <p>3. Scope of information about the subject of credit history supplied or received by the User shall be established by the Agreement taking into account the requirements stipulated by this Law.</p>
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<p>entity per the Unified State Registry of Enterprises and Organizations of Ukraine, information about an authorized person – representative of the Participant who made an inquiry;</p> <p>d) comments of the subject of credit history in a case stipulated by part five Article 13 of this Law.</p> <p>2. Information about the Participant, a party to a credit transaction, shall be disclosed by the consent of this Participant only.</p> <p>Article 8. Information Prohibited for Collection</p> <p>1. The Company shall be prohibited to collect and store information in credit histories about individuals related to:</p> <p>nationality, race or ethnic origin;</p> <p>political views;</p> <p>religious and philosophic beliefs;</p> <p>state of health;</p> <p>membership in parties and other</p>			<p>Article 8. Information Prohibited for Collection</p> <p>1. The Company shall be prohibited to collect and store information in credit histories about individuals related to:</p> <p>nationality, race or ethnic origin;</p> <p>political views;</p> <p>religious and philosophic beliefs;</p> <p>state of health;</p> <p>membership in parties and other public organizations.</p>
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<p>public organizations.</p> <p>Article 9. Procedure for Information Collection and Formation of Credit History</p> <ol style="list-style-type: none"> 1. The Participant shall supply the information to the Company to form a credit history only in case of a written consent by a subject of credit history. 2. In case a credit transaction is concluded and a written consent from a subject of credit history is obtained pursuant to part one of this Article, the Participant shall supply the following information to the Company: <ol style="list-style-type: none"> 1) about itself to identify it as a Participant to the Company; 2) about a subject of credit history established by paragraphs one and two, part one, Article 7 of this Law. 3. The Participant shall be entitled to refuse a credit transaction conclusion or to conclude such an agreement under conditions that take into account the risks due to conclusion of a credit transaction, in case a subject of credit history refuses to give the consent to the access to its credit 	<p>17. <u>MP I.Kuras:</u> Article 9 shall read as follows:</p> <ol style="list-style-type: none"> 1.The Participant shall supply the information to the Company to form a credit history only in case of a written consent by a subject of credit history. 2.In case a credit transaction is concluded and a written consent from a subject of credit history is obtained pursuant to part one of this Article, the Participant shall supply the following information to the Company: <ol style="list-style-type: none"> 1) about itself to identify it as a Participant to the Company; 2) about a subject of credit history established by paragraphs one and two, part one, Article 7 of this Law. 3. The Participant shall be entitled to refuse a credit transaction conclusion or to conclude such an agreement under conditions that take into account the risks due to conclusion of a credit transaction, in case a subject of credit history refuses to give the consent to the access to its credit history and/or to the transfer of the information to the Company about a credit transaction with the Participant. 4. Participant shall inform a subject of credit history about the name and 	<p>Accepted <i>per se</i></p>	<p>Article 9. Procedure for Information Collection and Formation of Credit History</p> <ol style="list-style-type: none"> 1. The User shall supply the information to the Company to form a credit history only in case of a written consent by a legal or physical entity that entered into a credit transaction with the User 2. In case a credit transaction is concluded and a written consent from a subject of credit history is obtained to collect, store, use and disseminate information about it through the Company, the User shall supply the following information to the Company: <ol style="list-style-type: none"> 1) about itself to identify it as a User; 2) about a subject of credit history established by paragraphs one and two, part one, Article 7 of this Law. 3. The User shall be entitled to refuse a credit transaction conclusion or to conclude such an agreement under conditions that take into account the risks due to conclusion of a credit transaction, in case a subject of credit history refuses to give the consent to the access to its credit history and/or to the transfer of the information to the Company about a credit transaction with the User. 4. The User shall inform a subject of credit history about the name and address of the
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<p>history and/or to the transfer of the information to the Company about a credit transaction with the Participant.</p> <p>4. Participant shall inform a subject of credit history about the name and address of the Company whom the information for the credit history formation will be supplied to.</p> <p>5. The Company shall attract information stipulated by paragraph 3 part one Article 7 of this Law only for the purpose of a credit history formation.</p>	<p>address of the Company whom the information for the credit history formation will be supplied to.</p> <p>5. In case of the Participant that entered into transaction with the subject of credit history is terminated as of the moment of making entry into the credit history or in case the rights of the Participant were transferred to the other legal entity, the entry into the credit history is made by a legal entity, the successor of the Participant.</p> <p>6. The Company shall attract the information stipulated by paragraph 3 part one Article 7 of this Law only for the purpose of the credit history formation.</p> <p>18. <u>MP O.Karpov:</u></p> <p>1) part one Article 9 shall read as follows: “1. The User shall supply information to form a credit history to the Company only in case of a written consent of a legal or physical entity that entered into a credit transaction with the User.”</p> <p>2) Part 2 Article 9 shall read as follows: “2. In case a credit transaction is concluded and a written consent from a subject of credit history is obtained to collect, store, use and</p>	<p></p> <p>Accepted</p> <p>Accepted</p>	<p>Company whom the information for the credit history formation will be supplied to.</p> <p>5. The Company shall attract information stipulated by paragraph 3 part one Article 7 of this Law only for the purpose of a credit history formation.</p> <p>6. The Company not later than 7 working days since receiving information from the User about the subject of credit history shall incorporate the respective information into its credit history.</p>
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	<p>disseminate information about it through the Company, the User shall supply the following information to the Company:</p> <p>3) Add part 6 to Article 9 which shall read as follows: “6. The Company not later than 7 working days since receiving information from the User about the subject of credit history shall incorporate the respective information into its credit history”.</p>	Accepted	
<p>Article 10. Registration and Procedure of Keeping the Information Contained in a Credit History</p> <p>1. The Company shall incorporate the respective information to a credit history not later than 7 working days since the Participant supplied the information.</p> <p>2. The Company shall withdraw the information contained in a credit history in case:</p>	<p>19. <u>MP V.Horbal:</u> Item 3) part 2 Article 10 shall read: “3) expiration of a 10 years’ period for the information keeping since the moment of a credit transaction expiration”.</p> <p>20. <u>MP A.Semynoga:</u> Add the following wording to item 3) part 2 Article 10: “since the moment of the Agreement termination”.</p> <p>21. <u>MP V.Akopyan:</u> Add the following wording to item 3) part 2 Article 10: “after the</p>	<p>Accepted editorially</p> <p>Accepted editorially</p> <p>Accepted editorially</p>	<p>Article 10. Procedure of Collection and Withdrawal of Information Contained in a Credit History.</p> <p>1. The Company shall withdraw the following from the credit history:</p> <p>1) the information stipulated by item 2 part one Article 7 in case a credit transaction or an Agreement is absent or declared invalid. In this case the Company shall make a respective note in the credit history;</p> <p>2) all information contained in a credit history in case a subject of credit history did not give its written consent to collect, store,</p>

<p>1) termination of the Agreement;</p> <p>2) absence of a written consent of a subject of credit history to transfer the information to the Company;</p> <p>3) expiration of a 10 years' period for the information keeping in a credit history.</p> <p>3. The Company shall be entitled to verify the information containing in a credit history with the Participant and to correct it upon conditions and per the procedure stipulated by this Law and the agreement between them.</p>	<p>Agreement termination”.</p> <p>22. <u>MP O.Karpov:</u></p> <p>1) Article 10 shall read as follows: “Article 10. Procedure of Collection and Withdrawal of Information Contained in a Credit History.</p> <p>1. The Company shall withdraw the following from the credit history:</p> <p>1) the information stipulated by item 2 part one Article 7 in case a credit transaction or an Agreement is absent or declared invalid. In this case the Company shall make a respective note in the credit history;</p> <p>2) all information contained in a credit history in case a subject of credit history did not give its written consent to collect, store, use and disseminate information about it through the Company;</p> <p>3) the information stipulated by items 2-4 part one Article 7 in case the term for the information keeping in the credit history has expired.</p> <p>2. The Company shall be entitled under the User’s participation to</p>	<p>Accepted</p>	<p>use and disseminate information about it through the Company;</p> <p>3) the information stipulated by items 2-4 part one Article 7 in case the term for the information keeping in the credit history has expired.</p> <p>2. The Company shall be entitled under the User’s participation to verify the information supplied by this User to form a credit history and to amend it on the conditions and per the procedure envisaged by this law and the Agreement.</p> <p>3. The Company shall store the information during ten years’ period since the moment of a credit transaction termination”.</p>
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<p>Article 11. Grounds and Procedure to Provide a Credit Report</p> <p>1. The Company shall provide information from the credit histories in the form of credit reports. A credit report shall contain all the information from a credit history, unless other scopes of information are stipulated by the Company's Statute or by the Agreement.</p> <p>2. The Participant shall be entitled to address the Company to receive a credit report in case of a written consent thereto by the subject of credit history and the further use of a credit report exclusively aimed at:</p> <p>1) concluding a credit transaction and a transaction to ensure fulfillment of this</p>	<p>verify the information supplied by this User to form a credit history and to amend it on the conditions and per the procedure envisaged by this law and the Agreement.</p> <p>3. The Company shall store the information during ten years' period since the moment of a credit transaction termination".</p> <p>23. <u>MP V.Horbal:</u> Part 9 Article 11 shall read as follows: "9. Provision of a credit report by the Company or rendering another service established by part 2 Article 15 of this Law shall be for fee, except for the cases stipulated by this Law".</p> <p>24. <u>MP A.Semynoga:</u> Add the following sentence to part 9 Article 11: "The fee amount shall be established by the Company upon the agreement with the Authorized body".</p> <p>22. <u>MP I.Kuras:</u> Article 11 shall read as follows: "1. The Company shall provide information from the credit histories in the form of credit reports. A credit report shall contain all the information from a credit history, unless other scopes of information are stipulated by the Company's Statute or by the</p>	<p>Accepted editorially</p> <p>Rejected</p> <p>Accepted <i>per se</i></p>	<p>Article 11. Grounds and Procedure to Provide a Credit Report</p> <p>1. The Company shall provide information from the credit histories in the form of credit reports. A credit report shall contain all the information from the credit history, unless other scopes of information are stipulated by the Company's Statute or by the Agreement.</p> <p>2. The User shall be entitled to address the Company to receive a credit report within the term of validity of a transaction concluded between it and the subject of a credit history and in case of a written consent thereto by the subject of credit history.</p> <p>The User shall be entitled to address the Company to receive a credit report in case a subject of a credit history addresses it with the aim to enter into a credit transaction and the User is given a written consent to access to its credit history.</p>
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<p>credit transaction;</p> <p>2) servicing a concluded credit transaction, the participants thereto being the Participant and this subject of credit history.</p> <p>3. The Company shall provide information contained in a credit history exclusively to the Company Participants on the grounds envisaged by this Law.</p> <p>4. The Company shall provide a credit report to the Participant upon its request filed in a written or electronic form upon the conditions envisaged by this Law and the Agreement.</p> <p>5. A credit report shall be provided to the Participant without the right to transfer it or to disclose information therein to the third persons.</p> <p>6. Submission of a credit report to the Participant under conditions stipulated by this Law and the Agreement shall not be deemed violation of a banking or commercial secret.</p> <p>7. The Company shall keep a registry of inquiries for a credit history reflecting the following</p>	<p>Agreement.</p> <p>2.The Participant shall be entitled to address the Company to receive a credit report in case of a written consent thereto by the subject of credit history and the further use of a credit report exclusively aimed at:</p> <p>1) concluding a credit transaction and a transaction to ensure fulfillment of this credit transaction;</p> <p>2) servicing a concluded credit transaction, the participants thereto being the Participant and this subject of credit history.</p> <p>3. The Company shall provide information contained in a credit history exclusively to the Company Participants on the grounds envisaged by this Law.</p> <p>4. The Company shall provide a credit report to the Participant upon its request filed in a written or electronic form upon the conditions envisaged by this Law and the Agreement.</p> <p>5. A credit report shall be provided to the Participant without the right to transfer it or to disclose information therein to the third persons.</p> <p>6. The information contained in the credit history can be submitted upon the court's request (for free)</p>	<p>3. The Company shall provide information contained in a credit history exclusively to the Company Users on the grounds envisaged by this Law.</p> <p>4. The Company shall provide a credit report to the User upon its request filed in a written or electronic form upon the conditions envisaged by this Law and the Agreement.</p> <p>5. A credit report shall be provided to the User without the right to transfer it or to disclose information therein to the third persons.</p> <p>6. Submission of a credit report to the User under conditions stipulated by this Law and the Agreement shall not be deemed violation of a banking or commercial secret.</p> <p>7. The Company shall keep a registry of inquiries for credit histories pursuant to this Law.</p> <p>8. Information in the registry of inquiries shall be kept within three years since the date of its supply.</p> <p>9. Supply of a credit report by the Company or rendering any services connected with keeping, processing and analyzing the information contained in a credit history shall be for fee, except for the cases stipulated by this Law.</p>
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<p>information therein:</p> <ol style="list-style-type: none"> 1) date of the inquiries to submit credit reports and the information about the credit report submission; 2) information about the Participant established pursuant to subparagraph 'c', paragraph four, part one, Article 7 of this Law; 3) form of a credit report submitted. <p>8. Information in the registry of inquiries shall be kept within three years since the date of its supply.</p> <p>9. Provision of a credit report by the Company or rendering any services connected with keeping, processing and analyzing the information contained in a credit history shall be for fee, except for the cases stipulated by this Law.</p>	<p>per the procedure established by the procedural legislation.</p> <p>7. Submission of a credit report to the Participant under conditions stipulated by this Law and the Agreement shall not be deemed violation of a banking or commercial secret.</p> <p>8. The Company shall keep a registry of inquiries for a credit history reflecting the following information therein:</p> <ol style="list-style-type: none"> 1) date of the inquiries to submit credit reports and the information about the credit report submission; 2) information about the Participant established pursuant to subparagraph 'c', paragraph four, part one, Article 7 of this Law; 3) form of a credit report submitted. <p>9. Information in the registry of inquiries shall be kept within three years since the date of its supply.</p> <p>10. Provision of a credit report by the Company or rendering any services connected with keeping, processing and analyzing the information contained in a credit history shall be for fee, except for the cases stipulated by this Law.</p>		
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	<p>words “providing of credit reports” add “the date of individuals notification about the fact of addressing to obtain a credit report about them”;</p> <p>4) due to the proposal to incorporate a new part three, parts 3-9 shall be considered parts 4-10 respectively.</p> <p>29. <i>MP O.Karpov</i></p> <p>1) Part two Article 11 shall read as follows:</p> <p>“2. The User shall be entitled to address the Company to receive a credit report within the term of validity of a transaction concluded between it and the subject of a credit history and in case of a written consent thereto by the subject of credit history.</p> <p>The User shall be entitled to address the Company to receive a credit report in case a subject of a credit history addresses it with the aim to enter into a credit transaction and the User is given a written consent to access to its credit history.”</p> <p>2) part seven Article 11 shall read as follows:</p> <p>“7. The Company shall keep a registry of inquiries for credit histories pursuant to this Law”.</p>	<p>editorially</p> <p>Rejected</p> <p>Accepted</p> <p>Accepted</p>	
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<p>confirm or does not reply within 15 days since the Company addressed it, the subject of credit history shall be entitled to submit a 100-words' comment to the contested information to the Company and the Company shall include it into the credit history.</p> <p>6. In case the Participant confirms the information of the subject of credit history, the Company shall make respective amendments to its credit history.</p> <p>7. A subject of credit history shall be entitled to appeal at court against the Company's rejection to provide the information contained in its own credit history in cases envisaged by this Law.</p>	<p>4. A subject of credit history shall be entitled to address the Company with a written application and comments not longer than 100 words claiming its disagreement to the information contained in its own credit history.</p> <p>5. In case of receiving an application and comments mentioned in part four of this Article, the Company shall be obliged for the term of the information verification to mark respectively a credit history of such a subject of credit history, to incorporate the comments hereto and within two working days since this application and comments receiving to address the User that submitted the contested information to prove or change it.</p> <p>6. In case the User confirms the contested information, the Company shall leave the credit history unchanged, remove the mark from the credit history and also leave the comments of the subject of credit history in it.</p> <p>7. In case the User changes the contested information, the Company shall amend the information contained in a credit history of the subject of credit</p>	<p>comments of the subject of credit history.</p> <p>8. In case the User did not reply within a 15-days' term since the Company addressed it, the Company shall withdraw a contested information and comments of the subject of credit history from the credit history and shall also remove a respective mark.</p> <p>9. The Company shall be entitled to notify the subject of credit history, the User and everybody who addressed the credit history of this subject within a year about change of a contested information not later than two days since such amendments were incorporated into a credit history.</p> <p>10. A subject of credit history shall be entitled to appeal at court against the Company or the User actions that violate its rights.</p>
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<p>Article 14. Credit Information Company</p> <p>1. The Company shall be created in the form of a joint stock</p>	<p>history, remove a mark from the credit history and also withdraw from it comments of the subject of credit history.</p> <p>8. In case the User did not reply within a 15-days' term since the Company addressed it, the Company shall withdraw a contested information and comments of the subject of credit history from the credit history and shall also remove a respective mark.</p> <p>9. The Company shall be entitled to notify the subject of credit history, the User and everybody who addressed the credit history of this subject within a year about change of a contested information not later than two days since such amendments were incorporated into a credit history.</p> <p>10. A subject of credit history shall be entitled to appeal at court against the Company or the User actions that violate its rights.</p> <p>34. <u>MP O.Karpov</u></p> <p>1) Delete the word 'joint stock' from part one Article 14</p> <p>2) Delete the word 'shareholders' from part three</p>	<p>Accepted</p> <p>Accepted</p>	<p>Article 14. Credit Information Company</p> <p>1. The Company shall be created in the form of</p>
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<p>company pursuant to the legislation, taking into account specifics envisaged by this Law.</p> <p>2. Legal and physical entities may be the Company founders. Legal entities, the Company founders, shall operate not less than three years since the registration date and shall have no debts in tax and compulsory payments within the last three years.</p> <p>3. The Company's authorized capital shall be formed exclusively at the expense of the founders' (shareholders') monetary funds and shall constitute not less than 5 million UAH.</p> <p>4. The Company shall issue simple nominal shares.</p> <p>5. The name of the Company shall obligatory contain the words 'Credit Information Company'.</p> <p>6. The words 'Credit Information Company' and their derivatives shall be allowed for use in the title name of only those legal entities whose exclusive operation is keeping the credit histories.</p>	<p>3) Delete part four of Article 14</p> <p>4) Parts five and six shall be considered parts four and five respectively.</p>	<p>Accepted</p> <p>Accepted</p>	<p>an economic (business) company pursuant to the legislation, taking into account specifics envisaged by this Law.</p> <p>2. Legal and physical entities may be the Company founders. Legal entities, the Company founders, shall operate not less than three years since the registration date and shall have no debts in tax and other compulsory payments within the last three years.</p> <p>3. The Company's authorized capital shall be formed exclusively at the expense of the founders' monetary funds and shall constitute not less than 5 million UAH.</p> <p>4. The name of the Company shall obligatory contain the words 'Credit Information Company'.</p> <p>5. The words 'Credit Information Company' and their derivatives shall be allowed for use in the title name of only those legal entities whose exclusive operation is keeping the credit histories.</p>
<p>Article 15. Operation of the Company</p>	<p>35. <u>MP V.Horbal:</u> 1) Paragraph (5) part 2 of Article 15 shall read as follows:</p>	<p>Rejected</p>	

<p>1. Subject matter of the Company operation shall be exclusively keeping the credit histories and rendering services connected with processing and analyzing the information contained in a credit history.</p> <p>2. To duly perform its operation, the Company shall be entitled to:</p> <p>1) provide consultative services;</p> <p>2) hold advertising campaigns, seminars, conferences, etc.;</p> <p>3) carry out marketing, statistic and other research;</p> <p>4) publish and sell specialized literature and objects having the Company symbols;</p> <p>5) based on the information contained in a credit history, provide a credit report to the Participant in the form of calculated credit rating of a subject of credit history;</p> <p>6) render services connected with securing of the information circulation about use of fake or stolen documents, securities and</p>	<p>“5) based on the information contained in a credit history, provide a credit report to the Participant upon conditions and in the form stipulated by this Law, the Company Statute and the Agreement (including in the form of calculated credit score of the subject of credit history)”;</p> <p>2) part 3 of Article 15 shall be withdrawn;</p> <p>3) paragraph (5), part 5 of Article 15 shall be withdrawn;</p> <p>4) Part 7 of Article 15 shall read as follows:</p> <p>“7. The Company shall submit reports about its operation to the Authorized Body in the form and within the perms established by the Authorized Body”.</p> <p>36. <u>MP A. Semynoga:</u></p> <p>1) Add the words ‘within a month since the moment of the license obtaining’ to part 6 Article 15.</p> <p>2) Specify official printed sources where the Company’s Statute is to be published.</p> <p>37. <u>MP V. Lebedivsky:</u></p> <p>To Article 15:</p> <p>1) Substitute paragraph 3 part 3 with the following paragraph:</p> <p>“3) license cancellation and bringing a court action on the Company liquidation in cases stipulated by paragraph 4 part 4 of this Article”;</p>	<p>Rejected</p> <p>Rejected</p> <p>Rejected</p> <p>Accepted</p> <p>Rejected</p> <p>Accepted in part</p>	<p>Article 15. Operation of the Company</p> <p>1. Subject matter of the Company operation shall be exclusively keeping the credit histories and rendering other services with the purpose of implementing this Law.</p> <p>2. The Company shall commence its operation from the moment of receiving a license.</p> <p>3. The Authorized Body shall issue a license based on the Company’s application and the documents proving availability of the following:</p> <p>1) paid authorized capital in the amount envisaged by this Law</p> <p>2) Statute of the Company to contain the following rules on:</p> <p>a) collection, processing and transfer of information;</p> <p>b) supply of credit reports;</p> <p>c) keeping and protection of information;</p> <p>d) keeping a registry of inquiries for credit histories.</p> <p>4. The Statute of the Company shall be subject to official publication.</p> <p>5. In case of the Company liquidation, the information specified in paragraphs 1 and 2, part one of Article 7 of this Law shall be subject to returning to the User that supplied it. The</p>
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<p>payment instruments.</p> <p>3. Information of paragraphs 5 and 6, part two of this Article shall be provided on the grounds envisaged by this Law for a credit report submission.</p> <p>4. The Company shall commence its operation since the moment of a license receiving.</p> <p>5. An Authorized Body shall issue a license based on the Company's application and the documents proving availability of the following:</p> <p>1) paid authorized capital in the amount envisaged by this Law;</p> <p>2) premises, equipment and certified computer software;</p> <p>3) qualified personnel of the Company;</p> <p>4) higher economic, legal or technical education (depending on the occupation) and perfect business reputation of the Company's administrative board members;</p> <p>5) Statute of the Company to contain the following rules</p>	<p>2) in paragraph 4 part 5 of Article 15 add the word 'completed' before the word 'higher'.</p> <p><u>38. MP O.Karpov</u></p> <p>1) Article 15 shall read as follows:</p> <p>Article 15. Operation of the Company</p> <p>1. Subject matter of the Company operation shall be exclusively keeping the credit histories and rendering other services with the purpose of implementing this Law.</p> <p>2. The Company shall commence its operation from the moment of receiving a license.</p> <p>3. The Authorized Body shall issue a license based on the Company's application and the documents proving availability of the following:</p> <p>1) paid authorized capital in the amount envisaged by this Law</p> <p>2) Statute of the Company to contain the following rules on:</p> <p>a) collection, processing and transfer of information;</p> <p>b) supply of credit reports;</p> <p>c) keeping and protection of</p>	<p>Accepted in part</p> <p>Accepted</p>	<p>information specified in paragraph 3, part one of Article 7 of this Law may be transferred or sold to another Company. The information specified in paragraph 4, part one of Article 7 of this Law and information that remained non-placed upon the above-mentioned conditions shall be subject to destruction.</p>
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<p>on:</p> <ul style="list-style-type: none"> a) collection, processing and transfer of information; b) supply of credit reports; c) keeping and protection of information; d) keeping a registry of inquiries for credit histories. <p>6. The Statute of the Company shall be subject to official publication.</p> <p>7. The Company shall submit reports about its operation to the Authorized Body.</p> <p>8. In case of the Company liquidation, the information specified in paragraphs 1 and 2, part one of Article 7 of this Law shall be subject to return to the Participant that supplied it. The information specified in paragraph 3, part one of Article 7 of this Law may be transferred or sold to the other Company. The information specified in paragraph 4, part one of Article 7 of this Law and information that remained non-placed upon the above-mentioned conditions</p>	<p>information;</p> <p>d) keeping a registry of inquiries for credit histories.</p> <p>4. The Statute of the Company shall be subject to official publication.</p> <p>5. In case of the Company liquidation, the information specified in paragraphs 1 and 2, part one of Article 7 of this Law shall be subject to returning to the User that supplied it. The information specified in paragraph 3, part one of Article 7 of this Law may be transferred or sold to another Company. The information specified in paragraph 4, part one of Article 7 of this Law and information that remained non-placed upon the above-mentioned conditions shall be subject to destruction.</p>		
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shall be subject to destruction.			
Article 16. State Regulation of the Company Operation			
1. The Authorized Body shall perform state regulation of the Company operation in the form of the Company operation's licensing.	39. <u>MP V. Horbal:</u> 1) Paragraph 3) part 2 Article 16 shall read as follows: "3) keep the unified registry of the Company"; 2) In paragraph 3 part 3 Article 16 substitute the wording 'bringing a court action' by the wording 'per the judicial procedure' . 3) In part 5 Article 16 substitute the wording 'in court' by the wording 'per the judicial procedure' .	Accepted	
2. The Authorized Body shall:			
1) approve its own regulatory acts and recommendations on operation of the Companies and their professional associations pursuant to the requirements of this Law;	40. <u>MP A.Semynoga:</u> Add a new paragraph 7 to part 2 Article 16 which reads as follows: "approve the amount of fee for providing a credit report or rendering any service connected with keeping, processing and analyzing information contained in the credit history". Paragraphs 7 and 8 shall be considered paragraphs 8 and 9 respectively.	Accepted	
2) perform the functions of a licensing body established by the legislation of Ukraine on licensing of specific types of economic activity;		Rejected	
3) keep the registry of the Companies;	41. <u>MP V.Lebedivsky:</u> 1) In paragraph 1 part 4 of Article 16 the words 'in the amount of up to 5,000 non-taxable minimal income of citizens' change for 'in the amount of up to 3,000 non-taxable minimal income of citizens'; 2) In paragraph 2 part 4 of Article 16 the words 'in the amount of up	Rejected	
4) control compliance of the Company operation with the requirements of this Law, regulatory acts of the Authorized Body and Statute of the Company;		Rejected	
			Article 16. State Regulation of the Company Operation
			1. The Authorized Body shall perform state regulation of the Company operation in compliance with this Law.
			2. The Authorized Body shall:
			1) approve its own regulatory acts and recommendations on operation of the Companies pursuant to the requirements of this Law;
			2) perform the functions of a licensing body established by the legislation of Ukraine on licensing of specific types of economic activity;
			3) keep the unified registry of the Companies;
			4) control compliance of the Company operation with the requirements of this Law, regulatory acts of the Authorized Body and Statute of the Company;
			5) supervise over the targeted use of information contained in a credit history during the Company reorganization or liquidation;
			6) establish forms, time frames and terms of

<p>5) supervise over the targeted use of information contained in a credit history during the Company reorganization or liquidation;</p> <p>6) establish forms, time frames and terms of report submission;</p> <p>7) apply authority measures to the Company;</p> <p>8) perform other authorities stipulated by the legislation of Ukraine.</p>	<p>to 1,000 non-taxable minimal income of citizens' change for 'in the amount of up to 500 non-taxable minimal income of citizens';</p> <p>3) In paragraph 3 part 4 of Article 16 the words 'in the amount of up to 500 non-taxable minimal income of citizens' change for 'in the amount of up to 300 non-taxable minimal income of citizens';</p> <p>4) Add a new paragraph 4 to part 4 of Article 16:</p> <p>"In cases of repeated violation (for not less than three times) of paragraphs 2 or 3 part 4 of this Article the Authorized body shall cancel the license".</p>	<p>Rejected</p> <p>Rejected</p>	<p>report submission;</p> <p>7) send to the Company a written notice requiring to terminate a violation and take necessary steps to its elimination;</p> <p>8) bring a court action on the Company for applying relevant administrative sanctions;</p> <p>9) perform other authorities stipulated by the laws of Ukraine.</p>
<p>3. Based on the data and information analysis of violations the Authorized Body shall be entitled to apply adequate sanctions to the Company, such as:</p> <p>1) written notice to terminate violation and take necessary steps to its elimination;</p> <p>2) imposing fines in the amount stipulated by part four of this Article;</p> <p>3) recall of the license</p>	<p><u>42. MP Karpov O.M.</u></p> <p>1) Part one of Article 16 shall be edited as follows:</p> <p>Article 16. State Regulation of the Company Operation</p> <p>1. The Authorized Body shall perform state regulation of the Company operation in compliance with this Law.</p> <p>2) Paragraph 7 part two of Article 16 shall be edited as follows:</p> <p>"7) send to the Company a written notice requiring to terminate a</p>	<p>Accepted</p> <p>Accepted</p>	<p>3. The Company can be subject to the following administrative sanctions:</p> <p>1) for operations of credit history keeping without a license, the issuance of is stipulated by this Law, - a fine in the amount of up to 5,000 non-taxable minimal income of citizens;</p> <p>2) for the Company violation of Ukrainian legislation and regulatory acts of the Authorized Body – a fine in the amount of up to 1,000 non-taxable minimal income of citizens;</p> <p>3) for evasion or non-timely fulfillment of a written notice of the Authorized body – a fine in the amount of up to 500 non-taxable minimal income of citizens;</p> <p>4) for systematic violations entailing the use of sanctions against the Company as stipulated in paragraphs 1-3 part three of this Article – termination of the Company license and initiation of its liquidation.</p>

<p>and bringing a court action on the Company liquidation.</p>	<p>violation and take necessary steps to its elimination”</p>		
<p>4. The Authorized Body may impose such fines on the Company:</p>	<p>3) Paragraph 8 part two of Article 16 shall be edited as follows:</p>	<p>Accepted</p>	
<p>1) for operations on credit history keeping without a license, the issuance thereof is stipulated by this Law, - in the amount of up to 5,000 non-taxable minimal income of citizens;</p>	<p>“8) bring a court action on the Company for applying relevant administrative sanctions”</p>		
<p>2) for the Company violation of Ukrainian legislation and regulatory acts of the Authorized Body – in the amount of up to 1,000 non-taxable minimal income of citizens;</p>	<p>4) Paragraph 8 part two of Article 16 shall become paragraph 9 part two of Article 16.</p>	<p>Accepted</p>	
<p>3) for evasion or non-timely fulfillment of a written notice of the Authorized body – in the amount of up to 500 non-taxable minimal income of citizens.</p>	<p>5)Part three of Article 16 shall be edited as follows:</p>	<p>Accepted</p>	
<p>Fines imposed by the Authorized Body shall be collected per the judicial procedure.</p>	<p>3. The Company can be subject to the following administrative sanctions:</p>		
<p>5. Decisions of the Authorized Body</p>	<p>1) for operations of credit history keeping without a license, the issuance of is stipulated by this Law, - a fine in the amount of up to 5,000 non-taxable minimal income of citizens;</p>		
	<p>2) for the Company violation of Ukrainian legislation and regulatory acts of the Authorized Body – a fine in the amount of up to 1,000 non-taxable minimal income of citizens;</p>		
	<p>3) for evasion or non-timely fulfillment of a written notice of the Authorized body – a fine in the amount of up to 500 non-taxable minimal income of citizens;</p>		
	<p>4) for systematic violations entailing the use of sanctions</p>		

on applying sanctions may be appealed against in court.	<p>against the Company as stipulated in paragraphs 1-3 part three of this Article – termination of the Company license and initiation of its liquidation.</p> <p>6) Parts four and five of Article 16 shall be withdrawn.</p>	Accepted	
<p>Article 17. Professional Associations of Credit Information Companies</p> <p>1. Professional associations of the Companies shall be founded in the form of associations (unions) upon the principles of voluntariness and shall operate aimed at protection and representation of their members' interests, development of interregional and international contacts, ensuring scientific and informational exchange, professional interests, drafting recommendations on the Company operation.</p> <p>2. Professional associations of the Companies shall be entitled to approve the rules on the Company professional operation for the association members.</p> <p>3. Professional associations of the Companies may undertake</p>	<p>43. <u>MP A. Semynoga:</u> Add the following sentence to part 1 Article 17: “Transfer of information contained in the credit history to other Companies shall be prohibited”</p> <p>44. <u>MP Karpov O.M.</u> 1) Article 17 shall be withdrawn</p>	<p>Rejected</p> <p>Accepted</p>	

<p>business exclusively for the purpose and pursuant to the objectives they were created.</p> <p>4. Upon the decision of the Authorized body a professional association of the Company may acquire the status of a self-regulated organization which shall be entitled in respect of its members to:</p> <p>provide methodological support to the Company operation;</p> <p>carry out training and upgrading of the Company experts;</p> <p>develop and implement rules of professional behavior for the Company experts;</p> <p>perform other functions pursuant to the status of a self-regulated organization.</p> <p>Chapter III. FINAL PROVISIONS</p> <p>1. This Law shall enter into force in six months since the date of its publication.</p> <p>2. Legal entities that implemented activity envisaged by Article 15 of this Law prior to this Law effectiveness shall bring their</p>	<p>45. <u>MP V.Horbal:</u> Add a new part 2 to Chapter III “Final Provisions”: “2. The Cabinet of Ministers of Ukraine shall, within a month upon this Law passage, propose amendments to the laws of Ukraine resulting from this Law and submit</p>	<p>Idea accepted, wording changed</p>	<p>Chapter III. FINAL PROVISIONS</p> <p>1. This Law shall enter into force six months after the date of its publication.</p> <p>2. Legal entities that implemented activity envisaged by Article 15 of this Law prior to this Law coming into effect shall bring their operation in compliance with this Law</p>
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	<p>48. <u>MP O.Karpov:</u></p> <p>1) Add part 7 to Chapter III “Final Provisions” which shall read as follows:</p> <p>“7. In the Law of Ukraine “On State Registration of Legal Entities and Individuals – Entrepreneurs” (#755-IV, the VRU Bulletin, 2003, #31-32, pg. 263):</p> <p style="padding-left: 40px;">a) add paragraph 3 to part 2 of Article 20 reading as follows:</p> <p style="padding-left: 40px;">“of the database (the aggregate of any information contained in the Unified State Registry in the electronic form) for the purposes of the Credit Information Company ”.</p> <p style="padding-left: 40px;">b) part 5 of Article 20 shall read as follows:</p> <p style="padding-left: 40px;">“5. Procedure for the transfer of information from the Unified State Registry in the database format, as well as the relevant fee shall be established by the special Authorized Body for state registration and the Credit Information Company on a contractual basis”.</p>	Accepted	<p>the Unified State Registry in the database format, as well as the relevant fee shall be established by the special Authorized Body for state registration and the Credit Information Company on a contractual basis”.</p>
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Draft for discussion purposes only

Item 5.3 Products for the Insurance Market (this also includes suggested pricing as outlined in 5.9)

Insurance Profile

Background

The Ukraine Insurance industry offers automobile collision and comprehensive insurance, life insurance, loan insurance and accident and disability insurance.

The industry has significant concerns in all areas and it relates primarily to fraud.

It is estimated the annual fraud is in the range of 25 million HRV (\$5 million USD). It is focused on:

- staged accidents where the driver has several policies on the same vehicle and files a claim with each. In addition, the accident may not have even happened.
- when an accident does occur, and there are multiple policies with different companies, the policyholder may not file a claim with all companies in order to maintain preferential premiums.
- where a policyholder has an accident and because the driver was intoxicated, the police would misrepresent the date of the accident to a date when the driver was sober.
- where a policyholder lies about his vehicle being stolen and, again, files claims with several companies.
- insurance company employees who accept a full year's insurance premium from policyholders yet only report the policy and premium for a brief period, pocket the difference, and hope there are no claims against the policy during the one year period.
- policy applicants misrepresent the fact they have not had any accidents which means they receive a premium reduction – Insurance companies check the Police accident database and applicant may have had his accident record expunged, in return for money.
- falsified green cards (green cards provide history of an individual's driving record – this information is maintained a central European database) are prevalent. Offenders are being prosecuted and these individuals are exposed publicly via a public awareness of the guilty parties. As a result fraudulent green card experience is on the decline.
- Bank collusion on insured loans. As example, a Bank would indicate a loan would be granted to purchase an automobile when, in fact, it was used for another purpose and the insurance company has no security when the credit is in default.
- misrepresentation of medical conditions. Applicants for life insurance for friends or relatives fail to advise of existing medical conditions such as cancer. Applicants for critical illness or disability insurance fail to notify company about existing illnesses. There are few ways to verify statements of applicants.

- Individuals obtain policies with a number of companies and then file claims with all of them for the same occurrence. There is no central database to be checked to determine if other policies are in force or for duplicate claims.
- Some applicants fail to disclose assets. This would indicate the applicant has undeclared income and the question arises as to what other subjects are they misrepresenting.

The industry's difficulties stem from the fact they do not have a central database in which policy information and policyholder experience, from the insurance industry, is stored and could be accessed, at will, by the industry.

As a result there are three products that would be developed for the use of the Insurance industry to allow them to reduce or perhaps eliminate this fraud.

The products are:

1. A central database of all insurance policies issued in Ukraine, by insurance companies. - Insurance Companies would be able to access the database for all policy applicants to ensure persons do not have similar policies with other companies. After the population of this database, each company's policyholders would be matched against the database and if policyholders were found to have similar policies with other companies, a report would be prepared, providing this information to the affected Insurance Companies. This information would be contained in a sub database of the credit bureau that could be accessed by insurance companies. For each access (search) the Insurance company would be charged a fee attached to it as a revenue generator for the credit bureau.
2. A central database that lists accident/theft claims, both past and present. - When an accident or theft claim is filed with any insurance company that insurance company, by checking with the credit bureau, would be able to determine if a similar accident/theft claim has been filed with another company against the same occurrence. They would further provide details of that claim, to the credit bureau database, for the benefit of other companies who may also be checking on a similar claim. This procedure is designed to eliminate fraud that occurs when a person files more than one claim on a particular accident or particular automobile theft.
3. A similar database, to #2, that would list claims for disability and life insurance. The same procedure would be followed as #2.
4. A central database that lists names and details of individuals who have or have attempted to commit fraud on any insurance company in Ukraine. When an accident occurs, and a claim is filed, the detailed information would be checked with the database to determine if there has been any fraud conducted in the past by the individual filing the claim. When a fraud is committed, that information is filed with the database.

The information to be used in all databases would also include: the Passport number, the tax number (if issued) demographic information from all insurance companies on their policyholders, accident and automobile theft information and any other information that may be deemed relevant to the databases.

At the end of 2004, there were approximately 5 million outstanding automobile insurance policies in Ukraine and approximately 180000 life and disability policies. It is known that the insurance companies are actively looking for a source that would provide them with an independent database where proprietary information could be placed for easy access and without fear of losing customers to competition. The credit bureau would be that third party and all individuals interviewed, in the insurance industry, confirm they would be accepting of the credit bureau providing these products.

Pricing

The Credit Bureau will have the ability to segment the products requested by the insurance companies. Data from different sections of the insurance database should be sold separately. The structure below is suggested:

- The procedure of checking whether or not a person has multiple insurance policies (a “policy search”) should be the first product priced in the range of \$2.00 (U.S.) or 10 HRV.
- Checking on persons who are filing claims for automobile accidents or automobile thefts (a “claim search”) constitutes a second separate product. Pricing in the range of \$2.00 (U.S.) or 10 HRV, is suggested.
- An enhancement in the form of details regarding a “hit” (a search reporting a positive finding that the subject had filed other claims), assuming that Credit Bureau personnel would have to manually furnish this information, should be an additional charge of at least \$1.00 (U.S.) or 5 HRV.
- A special bulk price, “Batch Reports”, could be established for a company to check its complete proprietary database against the Credit Bureau database; this report would be provided in automated format to check for any duplication in policies with other insurance companies. This product could be priced at between 10% and 50% of the price of an individual “policy search,” providing that it is requested in bulk and in automated format.

It is expected that insurance companies would want to check most of their outstanding policies to see if there is duplication – for this reason a special Insurance “Batch” product is included in the cash flows. When the insurance product becomes available, insurance company verifications in the first period could exceed 50% of the number of outstanding policies. It is expected that the first round of users will probably be “Batch” requests where the Credit Bureau could negotiate a “fixed or percentage of total accounts requested” charge. The financials reflect a fixed fee of US\$ 5,000 per request (25000 HRV) for reference.

Subject: Meeting with Ukrainian National Associations of Savings and Credit Unions – January 19, 2005

Attendees: Lyudmila Kravchenko (Vice-President), Vera Weissbrodt (Director – International Department), Javier Piedra, Senior Advisor, Jim Aziz, Consultant and Natalia Prymachenko, Translator.

We covered the program concept and the fact that USAID/Pragma are working with AUB/World Bank/Ministry of Finance on this project. Noted Javier Piedra is the key contact.

There are a total of 619 Credit Unions in Ukraine of which 600 are licensed. The difference of 19 means those Credit Unions cannot maintain savings accounts. The oversight body is the Ukrainian Financial Commission.

Ukrainian National Associations of Savings and Credit Union has 130 Credit Union members who, collectively, account for over 50% of the market. The Association does not have a central loan database although its members granted over 180,000 loans in 2004 with an average loan size of approximately 2000 Hrv.

Three other Credit Unions, with assets in excess of 200 million HRV (\$37 million USD) are not members of the association. They represent 40 % of the market. Credit Unions compete for business with commercial banks engaged in retail lending.

Other Highlights:

- Credit Unions have over 350,000 members as of end of 3rd quarter 2004, an increase of 150,000 since year end 2002.
- Product lines include: mortgages, various micro, retail , and social loans. Average loan size is less than US\$ 1,000 in aggregate and less than one year.
- 50 % of all loans are made in rural areas.
- Many loans are based on the applicant's salary. Many other loans add tangible security and/or guarantors. Write-offs have increased in the past year.
- Loan investigation includes checking the applicant's previous borrowing history. The credit unions will verify employment by reviewing employment record books and/or directly with an employer. Most lending is on a secured basis.

Credit Bureau:

- There have been two recent attempts, by some of their members to create a credit bureau database. Both efforts failed. In one example in Kyiv, the failure was a result of a lack of compatible information. The database was to contain negative information. The second example was in Cherkassy and involved a credit union, Privat Bank and Pro Credit. It too, did not succeed and she is not aware of details. In both instances we will investigate further for more detail. (Lyudmila will provide names of credit unions involved)
- Some credit union members have developed software used in the Kyiv attempt. This software is available if we wish to view.
- There is a sample of a release for a credit applicant to sign that would allow for the sharing of that applicant's credit and demographic information. The sample is on the Association's website.

- The use of the release is inconsistent amongst the member credit unions although those that participated in either of the failed credit bureau efforts are having the release signed on all applications.
- The Association has requested changes to the Ukrainian Credit Union law that would allow Credit Unions to be shareholders of a Credit Bureau, These changes would coincide with the draft law for credit bureaus. In their opinion, ownership would be an incentive for credit unions to share their information with a credit bureau.
- Without a credit bureau law the Association does not believe there is a legal basis for the creating a credit bureau database.
- Credit unions have proprietary databases of their own that could be converted to a standard format and ultimately provided to a credit bureau. They maintain historical information in these databases.
- Credit unions would share their information is banks did the same and credit unions had access to the bank information. They want to be sure their information would not be misused. There is some mistrust between credit unions and Banks.
- Need a credit bureau to assist in reducing high delinquency levels.
- In the summer of 2004 had meeting with the World Bank and Association of Ukraine Banks on the subject of a credit bureau. Banks indicate their willingness to support the project with resources. Some World Bank people reported on visits they had made to some credit bureaus in other countries. The summary was that the process to the creation of a credit bureau had begun. They have heard nothing since.
- They believe the passage of a law is critical to the creation of a credit bureau.

Follow ups:

Lyudmila will provide the following:

- names of credit unions involved in the unsuccessful credit bureau attempts;
- English copy of credit union law;
- list of their members including senior officers;
- Percent of market share of their membership.

Note: these credit unions, collectively, complete as many loans as the banking community on an annual basis.

MEMORANDUM – Access to Credit Initiative

TO: Yuriy Blaschuk
Chairman, International Mortgage Programme

FM: Javier Piedra

CC: David Lucterhand

Date: January 17, 2005

RE: Financial Sector – A Priority for the New Government of Ukraine

Message

“[T]he macroeconomic benefits from smoothly functioning credit markets can be linked back to the establishment of a comprehensive system for sharing consumer borrowing and payment histories”. Credit Bureaus have served to expand opportunities for the middle class, and, in the final analysis, “[have] had a literally transforming effect on the lives of less well-off individuals, young adults, and those located in small towns and rural areas.

‘Democratization’ describes a broad and beneficial effect, but the greatest measure of the impact of robust, national credit reporting is measured in the millions of individual lives improved¹.”

Main Point – building a stable middle class

1. A credit bureau will help expand and empower the middle class with greater mobility, greater opportunity, and, in the long run, provide greater resiliency to the population and small businesses from economic shocks. This has been shown to be true in markets around the world.
2. A credit bureau is a primary tool to expand home ownership and job creation. Increases access to financial leasing and mortgages and improves the quality of the insurance industry.

Credit bureaus provide the support mechanism for retail lenders and banks to extend credit for larger amounts at lower interest rates and for longer terms to a much broader cross-section of the population. Credit bureaus reduce bank losses, insurance and credit card fraud and collection costs.

A credit bureau will strengthen the primary mortgage, auto, retail, and credit card markets. It will improve the quality of the insurance and leasing industries and lay the foundations for securitization of consumer receivables. The main beneficiaries of an information exchange system will be the people of Ukraine.

A credit bureau is an industry tested mechanism that offers people a fairer shake in life, and at the same time boosts confidence in the banking and overall economic system; it is a mechanism that provides the hard working honest heretofore unknown consumer, with his consent, a better opportunity to obtain a mortgage, to send his kids to the best schools, or to open a small business. This basic message must be communicated and understood.

Recommendation

1. Make a reference in a speech at the Presidential level referring to the importance of establishing a private credit bureau². Just mention in a long list of other priorities. No need to dwell on the issue.
2. Passage of the credit bureau law should be a priority³.
3. Change/consolidate other legislation (such as insurance and leasing laws) to “allow” for data sharing.

¹ Dr. Michael Staten’s testimony before US Congress, April 2003. His recent publications relevant to credit reporting include: “*The Value of Comprehensive Credit Reports: Lessons from the U.S. Experience*”, Dr. J. M. Barron, Dept. of Economics, Purdue University, and Dr. M. Staten, Credit Research Center, Georgetown University; Other material: “*Credit Reporting Systems and the International Economy*”, edited by Margaret Miller, MIT Press, spring 2003; Jappelli, Tullio, and Pagano Marco, “*Information Sharing, Lending and Defaults: Cross-Country Evidence*,” (2002), Journal of Banking and Finance, Vol. 26, pp 2017-2045.

² Mr. Blaschuk was scheduled to meet with the President of Ukraine.

³ Ukraine’s Credit Bureau law has already passed its first reading in the Verhovnaya Rada. It will be going for a second review in the future – exact date unknown. Need to put on the Rada’s calendar and pass.